FLAGSTAR BANCORP INC
Form 10-Q
July 30, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to _________

Commission File Number: 001-16577

(Exact name of registrant as specified in its charter).

Michigan (State or other jurisdiction of Incorporation or organization)	38-3150651 (I.R.S. Employer Identification No.)
5151 Corporate Drive, Troy, Michigan (Address of principal executive offices)	48098-2639 (Zip code)

(248) 312-2000
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and formal fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No ¨.
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	o (Do not check if smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý.
As of July 25, 2013, 56,088,139 shares of the registrant’s common stock, $0.01 par value, were issued and outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
Flagstar Bancorp, Inc.
Consolidated Statements of Financial Condition
(In thousands, except share data)

	June 30, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and cash equivalents		
Cash and cash items (includes $381 and $0 of consolidated VIEs, respectively) (1)	$51,252	$38,070
Interest-earning deposits	2,653,191	914,723
Total cash and cash equivalents	2,704,443	952,793
Trading securities	50,039	170,086
Investment securities available-for-sale	92,930	184,445
Loans held-for-sale (includes $2,247,527 and $2,865,696 measured at fair value, respectively) (2)	2,331,458	3,939,720
Loans repurchased with government guarantees	1,509,365	1,841,342
Loans held-for-investment, net		
Loans held-for-investment ($261,772 and $20,219 measured at fair value which includes $170,507 and $0 of consolidated VIEs, respectively) (1) (2)	4,491,153	5,438,101
Less: allowance for loan losses	(243,000)	(305,000)
Total loans held-for-investment, net	4,248,153	5,133,101
Mortgage servicing rights	729,019	710,791
Repossessed assets, net	86,382	120,732
Federal Home Loan Bank stock	301,737	301,737
Premises and equipment, net	227,771	219,059
Other assets	453,720	508,206
Total assets	$12,735,017	$14,082,012
Liabilities and Stockholders' Equity		
Deposits		
Non-interest bearing	$1,181,226	$1,308,317
Interest bearing	6,288,841	6,985,978
Total deposits	7,470,067	8,294,295
Federal Home Loan Bank advances	2,900,000	3,180,000
Long-term debt (includes $119,980 and $0 of consolidated VIEs at fair value, respectively) (1) (2)	367,415	247,435
Representation and warranty reserve	185,000	193,000
Other liabilities ($23,651 and $19,100 measured at fair value which includes $381 and $0 of consolidated VIEs, respectively) (1) (2)	558,800	1,007,920
Total liabilities	11,481,282	12,922,650
Commitments and contingencies – Notes 8 and 18	—	—
Stockholders' Equity		
Preferred stock $0.01 par value, liquidation value $1,000 per share, 25,000,000 shares authorized; 266,657 issued and outstanding, respectively	263,277	260,390
Common stock $0.01 par value, 70,000,000 shares authorized; 56,077,528 and 55,863,053 shares issued and outstanding, respectively	561	559
Additional paid in capital	1,477,484	1,476,569
Accumulated other comprehensive income (loss)	988	(1,658)

Accumulated deficit	(488,575)	(576,498)
Total stockholders' equity	1,253,735	1,159,362
Total liabilities and stockholders' equity	$12,735,017	$14,082,012

(1) Amounts represent the assets and liabilities of consolidated variable interest entities ("VIEs").
(2) Amounts represent the assets and liabilities for which the Company has elected the fair value option.

The accompanying notes are an integral part of these Consolidated Financial Statements.

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Flagstar Bancorp, Inc.
Consolidated Statements of Operations
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Interest Income				
Loans	$81,731	$115,611	$173,680	$229,519
Investment securities available-for-sale or trading	1,838	6,850	3,932	15,421
Interest-earning deposits and other	1,489	462	2,435	874
Total interest income	85,058	122,923	180,047	245,814
Interest Expense				
Deposits	12,148	18,321	25,656	37,307
Federal Home Loan Bank advances	24,171	27,386	48,332	54,779
Other	1,643	1,738	3,295	3,517
Total interest expense	37,962	47,445	77,283	95,603
Net interest income	47,096	75,478	102,764	150,211
Provision for loan losses	31,563	58,428	51,978	173,101
Net interest income (expense) after provision for loan losses	15,533	17,050	50,786	(22,890)
Non-Interest Income				
Loan fees and charges	29,916	34,783	63,276	64,757
Deposit fees and charges	5,193	5,039	10,339	9,961
Loan administration	36,157	25,012	56,513	63,898
Gain (loss) on trading securities	21	3,711	72	(2,260)
Net gain on loan sales	144,791	212,666	282,331	417,518
Net transactions costs on sales of mortgage servicing rights	(4,264)	(983)	(8,483)	(3,299)
Net gain on investment securities available-for-sale (includes zero and $330 accumulated other comprehensive income reclassifications for unrealized net gains on investment securities available-for-sale)	—	20	—	330
Net gain (loss) on sale of assets	1,064	(26)	2,022	—
Total other-than-temporary impairment (loss) gain	(8,789)	(1,707)	(8,789)	2,810
Gain (loss) recognized in other comprehensive income before taxes	—	690	—	(5,002)
Net impairment losses recognized in earnings	(8,789)	(1,017)	(8,789)	(2,192)
Representation and warranty reserve – change in estimate	(28,940)	(46,028)	(46,336)	(106,566)
Other non-interest income	44,810	7,157	53,957	19,563
Total non-interest income	219,959	240,334	404,902	461,710

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Flagstar Bancorp, Inc.
Consolidated Statements of Operations, Continued
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Non-Interest Expense				
Compensation and benefits	70,935	65,402	148,144	131,390
Commissions	15,402	17,838	32,863	33,305
Occupancy and equipment	22,198	18,706	41,574	35,656
Asset resolution	15,921	20,851	32,366	57,621
Federal insurance premiums	7,791	12,104	19,031	24,428
Loan processing expense	15,389	11,132	32,500	21,818
Legal and professional expense	16,390	13,084	45,229	29,901
Other non-interest expense	10,371	10,380	19,279	24,124
Total non-interest expense	174,397	169,497	370,986	358,243
Income before federal income taxes	61,095	87,887	84,702	80,577
(Benefit) provision for federal income taxes	(6,108)	500	(6,108)	500
Net Income	67,203	87,387	90,810	80,077
Preferred stock dividend/accretion	(1,449)	(1,417)	(2,887)	(2,824)
Net income applicable to common stock	$65,754	$85,970	$87,923	$77,253
Income per share				
Basic	$1.11	$1.48	$1.44	$1.26
Diluted	$1.10	$1.47	$1.43	$1.26

The accompanying notes are an integral part of these Consolidated Financial Statements.

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Flagstar Bancorp, Inc.
Consolidated Statements of Comprehensive Income
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Net income	$67,203	$87,387	$90,810	$80,077
Other comprehensive income, before tax				
Investment securities available-for-sale				
Change in net unrealized loss on sale of investment securities available-for-sale	1,644	1,110	2,646	14,231
Reclassification of gain on sale of investment securities available-for-sale	—	(20)	—	(330)
Subsequent decreases in the fair value of investment securities available-for-sale previously written down as impaired	(2,681)	—	(2,681)	—
Additions for the amount related to the credit loss for which an other-than-temporary impairment was not previously recognized	8,789	1,017	8,789	2,192
Total investment securities available-for-sale, before tax	7,752	2,107	8,754	16,093
Deferred tax benefit related to other comprehensive income resulting from the mortgage securitization being dissolved	(6,108)	—	(6,108)	—
Other comprehensive income, net of tax	1,644	2,107	2,646	16,093
Comprehensive income	$68,847	$89,494	$93,456	$96,170

The accompanying notes are an integral part of these Consolidated Financial Statements.

Flagstar Bancorp, Inc.
Consolidated Statements of Stockholders' Equity
(In thousands)

	Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
Balance at December 31, 2011 (Unaudited)	$254,732	$556	$1,471,463	$ (7,819)	$ (639,216)	$1,079,716
Net income	—	—	—	—	80,077	80,077
Total other comprehensive income	—	—	—	16,093	—	16,093
Restricted stock issued	—	1	(1)	—	—	—
Accretion of preferred stock	2,824	—	—	—	(2,824)	—
Stock-based compensation	—	1	2,462	—	—	2,463
Balance at June 30, 2012	$257,556	$558	$1,473,924	$ 8,274	$ (561,963)	$1,178,349
Balance at December 31, 2012 (Unaudited)	$260,390	$559	$1,476,569	$ (1,658)	$ (576,498)	$1,159,362
Net income	—	—	—	—	90,810	90,810
Total other comprehensive income	—	—	—	2,646	—	2,646
Restricted stock issued	—	1	(1)	—	—	—
Accretion of preferred stock	2,887	—	—	—	(2,887)	—
Stock-based compensation	—	1	916	—	—	917
Balance at June 30, 2013	$263,277	$561	$1,477,484	$ 988	$ (488,575)	$1,253,735

The accompanying notes are an integral part of these Consolidated Financial Statements.

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Flagstar Bancorp, Inc.
Consolidated Statements of Cash Flows
(In thousands)

	Six Months Ended June 30, 2013 (Unaudited)	2012
Operating Activities		
Net income	$90,810	$80,077
Adjustments to reconcile of net income to net cash used in operating activities:		
Provision for loan losses	51,978	173,101
Depreciation and amortization	11,298	9,522
(Gain) loss on fair value of mortgage servicing rights	(14,862)	91,583
Net gain on loan sales	(282,331)	(417,518)
Net transactions costs on sales of mortgage servicing rights	8,483	3,299
Net (gain) loss on investment securities available-for-sale and trading	(72)	1,930
Other than temporary impairment losses on securities classified as available-for-sale	8,789	2,192
Net (gain) loss on transferors' interest	(45,534)	1,653
Proceeds from sales of loans held-for-sale	26,203,971	24,729,954
Origination and repurchase of mortgage loans held-for-sale, net of principal repayments	(24,235,093)	(24,930,729)
Net change in:		
Decrease (increase) in repurchase of mortgage loans with government guarantees, net of claims received	331,977	(99,843)
Decrease in accrued interest receivable	25,342	1,215
Proceeds from sales of trading securities	120,122	141,220
(Increase) decrease in other assets	(43,257)	33,067
Representation and warranty reserve - change in estimate	46,336	106,566
Net charge-offs in representation and warranty reserve	(65,206)	(76,260)
Decrease in other liabilities	(190,248)	(6,245)
Net cash provided by (used in) operating activities	2,022,503	(155,216)
Investing Activities		
Proceeds received from the sale of investment securities available-for-sale	—	39,881
Net repayment of investment securities available-for-sale	8,409	30,457
Net change from sales of loans held-for-investment	(296,204)	(268,919)
Principal repayments net of origination of portfolio loans	1,117,532	234,233
Proceeds received from the disposition of repossessed assets	59,499	59,259
Acquisitions of premises and equipment, net of proceeds	(19,733)	(14,534)
Proceeds received from the sale of mortgage servicing rights	222,801	16,394
Net cash provided by investing activities	1,092,304	96,771

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Flagstar Bancorp, Inc.
Consolidated Statements of Cash Flows, continued
(In thousands)

	Six Months Ended June 30, 2013 (Unaudited)	2012
Financing Activities		
Net (decrease) increase in deposit accounts	(824,228)	1,232,859
Net decrease in Federal Home Loan Bank advances	(280,000)	(553,000)
Net disbursement of payments of loans serviced for others	(279,085)	(103,537)
Net receipt of escrow payments	20,156	21,454
Net cash (used in) provided by financing activities	(1,363,157)	597,776
Net increase in cash and cash equivalents	1,751,650	539,331
Beginning cash and cash equivalents	952,793	731,058
Ending cash and cash equivalents	$2,704,443	$1,270,389
Supplemental disclosure of cash flow information		
Loans held-for-investment transferred to repossessed assets	$90,212	$250,348
Interest paid on deposits and other borrowings	$74,255	$92,055
Federal income taxes paid	$5,300	$225
Reclassification of loans originated for investment to loans held-for-sale	$361,503	$287,396
Reclassification of mortgage loans originated held-for-sale then to loans held-for-investment	$65,299	$18,477
Mortgage servicing rights resulting from sale or securitization of loans	$237,106	$238,176
Recharacterization of investment securities available-for-sale to loans held-for-investment	$73,283	$—
Reconsolidation of HELOC's of variable interest entities (VIEs)	$170,507	$—
Reconsolidation of long-term debt of VIEs	$119,980	$—

The accompanying notes are an integral part of these Consolidated Financial Statements.

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Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements (Unaudited)

Note 1 – Nature of Business

Flagstar Bancorp, Inc. ("Flagstar" or the "Company"), the holding company for Flagstar Bank, FSB (the "Bank") is a Michigan-based savings and loan holding company founded in 1993. The Company's business is primarily conducted through its principal subsidiary, the Bank, a federally chartered stock savings bank founded in 1987. At June 30, 2013, the Company's total assets were $12.7 billion. The Company is the largest bank headquartered in Michigan and one of the ten largest savings banks in the United States.

The Company offers a range of products and services to consumers and businesses. As of June 30, 2013, the Company operated 111 banking centers in Michigan and 40 home loan centers in 17 states. The Company originates loans nationwide and is among the top ten leading originators of residential first mortgage loans in the United States. The Company also offers consumer products including deposit accounts, standard and jumbo home mortgage loans, home equity lines of credit ("HELOC"), and personal loans, including auto and boat loans. The Company also offers commercial loans and treasury management services. Commercial products offered include deposit and sweep accounts, telephone banking, term loans and lines of credit, lease financing, government banking products and treasury management services including remote deposit and merchant services.

The Company sells or securitizes most of the residential mortgage loans that it originates and generally retains the right to service the mortgage loans that it sells. These mortgage servicing rights ("MSRs") are occasionally sold by the Company in transactions separate from the sale of the underlying mortgages. The Company has, from time to time, retained certain loan originations in the held-for-investment portfolio, although the Company has sold substantially all of its originations for the past several years.

The Bank is subject to regulation, examination and supervision by the Office of the Comptroller of the Currency ("OCC") of the U.S. Department of the Treasury ("U.S. Treasury"). The Bank is also subject to regulation, examination and supervision by the Federal Deposit Insurance Corporation ("FDIC") and the Consumer Financial Protection Bureau (the "CFPB"). The Bank's deposits are insured by the FDIC through the Deposit Insurance Fund ("DIF"). The Company is subject to regulation, examination and supervision by the Board of Governors of the Federal Reserve ("Federal Reserve"). The Bank is also a member of the Federal Home Loan Bank ("FHLB") of Indianapolis.

Note 2 – Basis of Presentation, Accounting Policies and Recent Developments

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete financial statements. These interim financial statements include all adjustments, consisting of normal recurring accruals that management believes are necessary for a fair presentation of the results of operations, financial position and cash flows. The results of operations for the three and six months ended June 30, 2013, are not necessarily indicative of the results that may be expected for any other interim period or for the full year ending December 31, 2013. In addition, certain prior period amounts have been reclassified to conform to the current period presentation. These consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, which are available on the Company's Investor Relations web page, at www.flagstar.com, and on the SEC website, at www.sec.gov.

Variable Interest Entities

The accompanying unaudited consolidated financial statements include variable interest entities ("VIEs") in which the Company has determined to have a controlling financial interest. The Company consolidates a VIE if it has: (i) a variable interest in the entity; (ii) the power to direct activities of the VIE that most significantly impact the entity's economic performance; and (iii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE (i.e., the Company is considered to be the primary beneficiary). Variable interests can include equity interests, subordinated debt, derivative contracts, leases, service agreements, guarantees, standby letters of credit, loan commitments, and other contracts, agreements and financial instruments.

A VIE is an entity that lacks equity investors or whose equity investors do not have a controlling financial interest in the entity through their equity investments. The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and consolidates the VIE. On a quarterly basis, the Company will reassesses whether it has a controlling financial

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interest in and is the primary beneficiary of a VIE. The quarterly reassessment process considers whether the Company has acquired or divested the power to direct the activities of the VIE through changes in governing documents or other circumstances.

The reassessment also considers whether the Company has acquired or disposed of a financial interest that could be significant to the VIE, or whether an interest in the VIE has become significant or is no longer significant. The consolidation status of the VIEs with which the Company is involved may change as a result of such reassessments. Changes in consolidation status are applied prospectively, with assets and liabilities of a newly consolidated VIE initially recorded at fair value. A gain or loss may be recognized upon deconsolidation of a VIE depending on the carrying amounts of deconsolidated assets and liabilities compared to the fair value of retained interests and ongoing contractual arrangements. The Company primarily uses VIEs for its securitization activities, in which the Company transfers whole loans or debt securities into a trust or other vehicle such that the assets are legally isolated from the creditors of the Company. Assets held in a trust can only be used to settle obligations of the trust. The creditors of these trusts typically have no recourse to the Company except in accordance with the Company's obligations under standard representations and warranties. When the Company is the servicer of whole loans held in a securitization trust, including home equity loans, the Company has the power to direct the most significant activities of the trust. The Company does not have the power to direct the most significant activities of a residential mortgage agency trust unless the Company holds substantially all of the issued securities and has the unilateral right to liquidate the trust. The Company consolidates a whole-loan securitization trust if it has the power to direct the most significant activities and also holds securities issued by the trust or has other contractual arrangements, other than standard representations and warranties, which could potentially be significant to the trust.

As a result of the settlement agreement with Assured Guaranty Municipal Corp., formerly known as Financial Security Assurance Inc. ("Assured"), discussed below, the Company became the primary beneficiary of the FSTAR 2005-1 and FSTAR 2006-2 HELOC securitization trusts because the Company obtained the power to direct the activities that most significantly impact the economic performance of the trusts (power to select or remove the servicer) and the obligation to absorb expected losses and receive residual returns (support of the guarantor and holder of residual interests in trusts). See Note 8 for information on VIEs.

Reverse Stock Split

The Company's board of directors authorized a one-for-ten reverse stock split on September 24, 2012 following the annual meeting of stockholders at which the reverse stock split was approved by its stockholders. The reverse stock split began trading on a post-split basis on October 11, 2012. Unless noted otherwise, all share-related amounts herein reflect the one-for-ten reverse stock split.

In connection with the reverse stock split, stockholders received one new share of Common Stock for every ten shares held at the effective time. The reverse stock split reduced the number of shares of outstanding Common Stock from approximately 558.3 million to 55.8 million. The number of authorized shares of Common Stock was reduced from 700 million to 70 million. Proportional adjustments were made to the Company’s outstanding options, warrants and other securities entitling their holders to purchase or receive shares of Common Stock. In lieu of fractional shares, stockholders received cash payments for fractional shares that were determined on the basis of the Common Stock's closing price on October 9, 2012, adjusted for the reverse stock split. The reverse stock split did not negatively affect any of the rights that accrue to holders of the Company's outstanding options, warrants and other securities entitling their holders to purchase or receive shares of Common Stock.

Pledged Assets

The Company has pledged cash to collateralize the relationship with VISA and the servicing related exposures with Fannie Mae. At June 30, 2013 and December 31, 2012, the Company pledged $4.4 million and $9.8 million, respectively, of cash. For information regarding other pledged assets, see Notes 4, 5, 6, 7 and 10.

Recently Issued Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") or other standard setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the impact of recently issued standards that are not yet effective will not have a material impact on the Consolidated Financial Statements or the Notes thereto or results of operations upon adoption.

In February 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date." The guidance requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of (a) the

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amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and (b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. This guidance is effective retrospectively, for annual and interim periods, beginning after December 15, 2013. The adoption of the guidance is not expected to have a material impact on the Consolidated Financial Statements or the Notes thereto.

In July 2013, the FASB issued ASU No. 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." The guidance requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance is effective prospectively, for annual and interim periods, beginning after December 15, 2013. The adoption of the guidance is not expected to have a material impact on the Consolidated Financial Statements or the Notes thereto.

Recent Developments

Preferred Stock and Warrant

On December 18, 2012, the U.S. Treasury announced its intention to auction during 2013 the preferred stock of a number of institutions, including the Company, that the U.S. Treasury purchased in 2009 under the Troubled Asset Relief Program ("TARP") Capital Purchase Program.. The auction of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series C (the “Series C Preferred Stock”), closed on March 28, 2013. The U.S. Treasury also auctioned the warrant to purchase up to approximately 645,138 shares of the Company's common stock, par value $0.01 per share (the "Common Stock") at an exercise price of $62.00 per share (the "TARP Warrant"). That auction closed on June 5, 2013. As a result of the auctions, the Series C Preferred Stock and the TARP Warrant are now held by third party investors unaffiliated with the U.S. government.

Commercial Loan Sales

Effective December 31, 2012, the Bank entered into a definitive Transaction Purchase and Sale Agreement (the "CIT Agreement") with CIT Bank, the wholly-owned U.S. commercial bank subsidiary of CIT Group Inc. ("CIT"). Under the terms of the CIT Agreement, CIT acquired $1.3 billion in commercial loan commitments, $784.3 million of which was outstanding at December 31, 2012 for a purchase price of $779.2 million. The Company recognized a gain of $1.0 million recorded in "net gain on sale of assets" on the Consolidated Statement of Operations. The loans sold consist primarily of asset-based loans, equipment leases and commercial real estate loans. The sale resulted in a reversal of $12.6 million to the allowance for loan loss associated with such loans and which the reversal was recognized at December 31, 2012.

Effective February 5, 2013, the Bank entered into a definitive Asset and Portfolio Purchase and Sale Agreement (the "Customers Agreement") with Customers Bank ("Customers") located in Wyomissing, Pennsylvania. Under the terms of the Customers Agreement, Customers acquired $187.6 million in commercial loan commitments, $150.9 million of which were outstanding at December 31, 2012. The loans sold consist primarily of commercial and industrial loans. The transaction settled on March 28, 2013 for a purchase price of $148.5 million.

Litigation Settlements

In 2009 and 2010, the Bank received repurchase demands from Assured with respect to HELOCs that were sold by the Bank in connection with the two non-agency HELOC securitizations. On February 5, 2013, the U.S. District Court for the Southern District of New York (the "Court") issued a decision in the lawsuit filed by Assured. The Court found in favor of Assured on its claims for breach of contract against the Bank in the amount of $89.2 million plus contractual interest and attorneys' fees and costs. On April 1, 2013, the Court issued a final judgment against the Company for a total of $106.5 million, consisting of $90.7 million in damages plus $15.9 million in pre-judgment interest. The Bank filed a notice of appeal later that month. The Court subsequently issued a memorandum order, in which the court reserved the decision regarding attorneys' fees until after the appeal. On June 21, 2013, the Bank entered into an agreement with Assured (the "Assured Settlement Agreement") to settle the litigation and the Bank's pending appeal. Pursuant to the terms of the Assured Settlement Agreement, Assured's judgment against the Bank has been deemed fully satisfied, the Bank's appeal has been dismissed, and, among other consideration and transaction provisions, the Bank has paid Assured $105.0 million. In addition, the Bank has assumed responsibility for future payments due by Assured

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to noteholders in the Flagstar non-agency HELOC securitization trust (the "FSTAR 2005-1") and Flagstar non-agency HELOC securitization trust (the "FSTAR 2006-2"), (collectively the "HELOC securitization trusts"), and will receive future reimbursements for claims paid to which Assured would otherwise have been entitled. As a result, the Bank recorded a $49.1 million gain, arising from the reconsolidation of the assets and liabilities of the HELOC securitization trusts at fair value and the reversal of related reserves for pending and threatened litigation.

In May 2010, the Bank received repurchase demands from MBIA Insurance Corporation ("MBIA") with respect to closed-end, fixed and adjustable second mortgage loans that were sold by the Bank in connection with its two non-agency second mortgage loan securitizations. On January 11, 2013, MBIA filed a lawsuit against the Bank in the U.S. District Court for the Southern District of New York, alleging a breach of various loan level representations and warranties and seeking relief for breach of contract, as well as full indemnification and reimbursement of amounts that it has paid and will pay under the respective insurance policies, plus interest and costs. In the litigation, MBIA alleged damages to date of $165.0 million and unspecified future damages. In March 2013, the Bank filed a motion to dismiss, and MBIA filed a motion for partial summary judgment on the basis of collateral estoppel. On May 2, 2013, the Bank entered into an agreement with MBIA (the "MBIA Settlement Agreement") to settle the litigation. Pursuant to the terms of the MBIA Settlement Agreement, MBIA dismissed its lawsuit against the Bank and in exchange, among other consideration and transaction provisions, the Bank paid MBIA $110.0 million. Following the MBIA Settlement Agreement, the Flagstar non-agency second mortgage securitization trust (the "FSTAR 2006-1") which was recorded as available-for-sale investment securities, was collapsed and the Company then transferred the loans associated with the securitization to its loans held-for-investment portfolio at fair value, approximately $73.3 million of second mortgage loans, and dissolved the FSTAR 2006-1 mortgage securitization trust. As a result, the Company recognized a $4.9 million loss during the three months ended June 30, 2013. In addition, the MBIA Settlement Agreement also noted that MBIA will be required to satisfy all of its obligation under the Flagstar non-agency second mortgage securitization trust (the "FSTAR 2007-1") insurance policy and related FSTAR 2007-1 obligations without further recourse to the Company.

For further information, see Notes 8 and 18.

Note 3 – Fair Value Measurements

The Company utilizes fair value measurements to record certain assets and liabilities at fair value and to determine fair value disclosures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability, in either case through an orderly transaction between market participants at the measurement date. The determination of fair values of financial instruments often requires the use of estimates. In cases where quoted market values in an active market are not available, the Company uses present value techniques and other valuation methods to estimate the fair values of its financial instruments. These valuation models rely on market-based parameters when available, such as interest rate yield curves, credit spreads or unobservable inputs. Unobservable inputs may be based on management's judgment, assumptions and estimates related to credit quality, the Company's future earnings, interest rates and other relevant inputs. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used.

Valuation Hierarchy

U.S. GAAP establishes a three-level valuation hierarchy for disclosure of fair value measurements that is based on the transparency of the inputs used in the valuation process. The three levels of the hierarchy, highest ranking to lowest, are as follows.

Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets in which the Company can participate as of the measurement date;

Level 2 - Quoted prices for similar instruments in active markets, and other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 - Unobservable inputs that reflect the Company's own assumptions about the expectations that market participants would use in pricing an asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input within the valuation hierarchy that is significant to the overall fair value measurement. Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period.

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

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Assets

Trading securities. These securities are comprised of U.S. government sponsored agency securities, U.S. Treasury bonds and non-investment grade residual securities that arose from private-label securitizations of the Company. The U.S. government sponsored agency securities and U.S. Treasury bonds trade in an active, open market with readily observable prices and are therefore classified within the Level 1 valuation hierarchy. The non-investment grade residual securities do not trade in an active, open market with readily observable prices and are therefore classified within the Level 3 valuation hierarchy. Under Level 3, the fair value of residual securities is determined by discounting estimated net future cash flows using expected prepayment rates and discount rates that approximate current market rates. Estimated net future cash flows include assumptions related to expected credit losses on these securities. The Company maintains a model that evaluates the default rate and severity of loss on the residual securities collateral, considering such factors as loss experience, delinquencies, loan-to-value ratios, borrower credit scores and property type.

Investment securities available-for-sale. These securities are comprised of U.S. government sponsored agencies and non-agency collateralized mortgage obligations ("CMOs") and municipal obligations.

- U.S. government sponsored agencies are classified within Level 1 of the valuation hierarchy due to the quoted prices for these securities being available in an active market.
- The quoted market prices are not available for municipal obligations and the fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and those securities are classified within Level 2 of the valuation hierarchy.
- Non-agency CMOs are classified within Level 2 of the valuation hierarchy and were previously classified within Level 3. Non-agency CMOs were transferred from Level 3 to Level 2 during the first quarter 2012 due to increased market liquidity and an increase in the number of available pricing models. The non-agency CMOs are valued based on pricing provided by external pricing services. Previously, the markets were illiquid and fair values were based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement, which was the reason for a Level 3 classification. As of September 30, 2012, the Company sold the remaining securities in non-agency collateralized mortgage obligation securities that were related to the investments arising out of strategies to fully utilize available balance sheet leverage capacity.
- The Company determined the fair value of the mortgage securitization, FSTAR 2006-1 securitization trust, using a discounted estimated net future cash flow model and therefore classified it within the Level 3 valuation hierarchy as the model utilizes significant inputs which are unobservable. Following the MBIA Settlement Agreement, the FSTAR 2006-1 mortgage securitization, which was recorded as available-for-sale investment securities, was collapsed and the Company then transferred the loans associated with the securitization to its loan held-for-investment portfolio at fair value and dissolved the FSTAR 2006-1 mortgage securitization trust.

Loans held-for-sale. The Company generally estimates the fair value of loans held-for-sale based on quoted market prices for securities backed by similar types of loans. Where quoted market prices were available, such market prices were utilized as estimates for fair values. Otherwise, the fair value of loans was computed by discounting cash flows using observable inputs inclusive of interest rates, prepayment speeds and loss assumptions for similar collateral. These measurements are classified as Level 2.

Loans held-for-investment. Loans held-for-investment are generally recorded at amortized cost. The Company does not record these loans at fair value on a recurring basis. However, from time to time, a loan becomes impaired when it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Once a loan is identified as impaired, the fair value of the impaired loan is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. The fair value of the underlying collateral is determined, where possible, using market prices derived from appraisals or broker price opinions which are considered to be Level 3. Fair value may also be measured using the present value of expected cash flows discounted at the loan's effective interest rate. The Company records the impaired loans as a non-recurring Level 3 valuation.

Loans held-for-investment on a recurring basis are loans that were previously recorded as loans held-for-sale but subsequently transferred to the held-for-investment category. As the Company selected the fair value option for the held-for-sale loans, they continue to be reported at fair value and measured consistent with the Level 2 methodology for loans held-for-sale.

As of June 30, 2013, the HELOC securitizations have been reconsolidated such that the HELOC loans associated with the FSTAR 2005-1 and FSTAR 2006-2 securitization trusts have been recorded in the Consolidated Financial Statement as loans held-for-investment, as a result of the Assured Settlement Agreement. These loans are recorded at fair value using the present value of expected cash flows discounted at market rates typical of assets with similar risk profiles. The Company records these loans as a recurring Level 3 valuation. Included in loans held-for-investment prior to June 30, 2013 was transferors' interest on the HELOC securitization trusts. The Company determined the fair value of transferors' interest based on the claims due to the note insurer and continuing credit losses on the loans underlying the securitizations, which were considered to be Level 3.

Also, included in loans held-for-investment is the second mortgage loans associated with the previous FSTAR 2006-1 mortgage securitization trust. The loans are valued using a discounted estimated net future cash flow model and therefore classified within the Level 3 valuation hierarchy as the model utilizes significant inputs which are unobservable. As a result of the MBIA Settlement Agreement, the FSTAR 2006-1 mortgage securitization, which was recorded as available-for-sale investment securities, was collapsed and the Company then transferred the second mortgage loans associated with the mortgage securitization to its loans held-for-investment portfolio at fair value and dissolved the FSTAR 2006-1 mortgage securitization trust. The Company records these loans as a recurring Level 3 valuation. See Note 8 - Private-Label Securitization and Variable Interest Entities for additional information.

Repossessed assets. Loans on which the underlying collateral has been repossessed are adjusted to fair value less costs to sell upon transfer to repossessed assets. Subsequently, repossessed assets are carried at the lower of carrying value or fair value, less anticipated marketing and selling costs. Fair value is generally based upon third-party appraisals or internal estimates and considered a Level 3 classification.

MSRs. Although there are MSR sales transacting, the current market for residential MSRs is not sufficiently liquid to provide participants with quoted market prices for all tranches of MSRs. Therefore, the Company uses an option-adjusted spread valuation approach to determine the fair value of MSRs. This approach consists of projecting servicing cash flows under multiple interest rate scenarios and discounting these cash flows using risk-adjusted discount rates. The key assumptions used in the valuation of residential MSRs include mortgage prepayment speeds and discount rates. Management obtains third-party valuations of the residential MSR portfolio on a quarterly basis from independent valuation experts to assess the reasonableness of the fair value calculated by its internal valuation model. Due to the nature of the valuation inputs, residential MSRs are classified within Level 3 of the valuation hierarchy. See Note 9 - Mortgage Servicing Rights, for the key assumptions used in the residential MSR valuation process.

Derivative financial instruments. Certain classes of derivative contracts are listed on an exchange and are actively traded, and they are therefore classified within Level 1 of the valuation hierarchy. These include U.S. Treasury futures and U.S. Treasury options. The Company's forward loan sale commitments and interest rate swaps are valued based on quoted prices for similar assets in an active market with inputs that are observable and are classified within Level 2 of the valuation hierarchy. Rate lock commitments are valued using internal models with significant unobservable market parameters and therefore are classified within Level 3 of the valuation hierarchy. The Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. The derivatives are reported in either "other assets" or "other liabilities" on the Consolidated Statements of Financial Condition.

Liabilities

Warrants. Warrant liabilities are valued using a binomial lattice model and are classified within Level 2 of the valuation hierarchy. Significant observable inputs include expected volatility, a risk free rate and an expected life. Warrant liabilities are reported in "other liabilities" on the Consolidated Statements of Financial Condition.

Long-term debt. As a result of the Assured Settlement Agreement, the Company reconsolidated the debt associated with the FSTAR 2005-1 and FSTAR 2006-2 HELOC securitization trusts at fair value. The fair value of the debt is estimated using quantitative models which incorporate observable and, in some instances, unobservable inputs including security prices, interest rate yield curves, option volatility, currency, commodity or equity rates and correlations between these inputs. The Company also considers the impact of its own credit spreads in determining the discount rate used to value these liabilities. The credit spread is determined by reference to observable spreads in the secondary bond markets, which are considered to be Level 3. The Company records this debt as a recurring Level 3 valuation.

DOJ litigation settlement. On February 24, 2012, the Company announced that the Bank had entered into an agreement (the "DOJ Agreement") with the U.S. Department of Justice ("DOJ") relating to certain underwriting practices associated with loans insured by the Federal Housing Administration ("FHA") of the Department of Housing and Urban Development ("HUD"). The Bank and the DOJ entered into the DOJ Agreement pursuant to which the Bank agreed to comply with all applicable HUD and FHA rules related to the continued participation in the direct endorsement lender program, make an initial payment of $15.0 million within 30 business days of the effective date of the DOJ Agreement, make payments of approximately $118.0 million contingent upon the occurrence of certain future events (the "Additional Payments"), and complete a monitoring period by an independent third party chosen by the Bank and approved by HUD. The Company made the initial payment of $15.0 million on April 3, 2012.

The Company has elected the fair value option to account for the liability representing the obligation to make Additional Payments under the DOJ Agreement. The signed DOJ Agreement establishes a legally enforceable contract with a stipulated payment plan that meets the definition of a financial liability. The Company made the fair value election as of December 31, 2011, the date the Company first recognized the financial instrument in its financial statements.

At June 30, 2013, the cash flows are discounted using a 13.6 percent discount rate that is inclusive of the risk free rate based on the expected duration of the liability and an adjustment for non-performance risk that represents the Company's credit risk. The model assumes 12 quarters of sustained profitability prior to reversing the valuation allowance associated with the deferred tax asset.

The liability is classified within Level 3 of the valuation hierarchy given the projections of earnings and growth rate assumptions are unobservable inputs. The litigation settlement is included in other liabilities on the Consolidated Financial Statements and changes in the fair value of the litigation settlement will be recorded each quarter in other non-interest expense on the Consolidated Statements of Operations.

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Assets and liabilities measured at fair value on a recurring basis

The following tables present the financial instruments carried at fair value as of June 30, 2013 and December 31, 2012, by caption on the Consolidated Statement of Financial Condition and by level in the valuation hierarchy.

	Level 1	Level 2	Level 3	Total Fair Value
June 30, 2013	(Dollars in thousands)			
Trading securities				
U.S. Treasury bonds	$50,039	$—	$—	$50,039
Investment securities available-for-sale				
U.S. government sponsored agencies	63,180	—	—	63,180
Municipal obligations	—	29,750	—	29,750
Loans held-for-sale				
Residential first mortgage loans	—	2,247,527	—	2,247,527
Loans held-for-investment				
Residential first mortgage loans	—	17,938	—	17,938
Second mortgage loans	—	—	73,327	73,327
HELOC loans	—	—	170,507	170,507
Mortgage servicing rights	—	—	729,019	729,019
Derivative assets				
Forward agency and loan sales	—	148,160	—	148,160
Interest rate swaps	—	1,220	—	1,220
Total derivative assets	—	149,380	—	149,380
Total assets at fair value	$113,219	$2,444,595	$972,853	$3,530,667
Derivative liabilities				
Rate lock commitments	$—	$—	$(23,746)	$(23,746)
U.S. Treasury futures	(11,389)	—	—	(11,389)
Agency forwards	(12,755)	—	—	(12,755)
Interest rate swaps	—	(1,220)	—	(1,220)
Total derivative liabilities	(24,144)	(1,220)	(23,746)	(49,110)
Warrant liabilities	—	(7,854)	—	(7,854)
Long-term debt	—	—	(119,980)	(119,980)
DOJ litigation	—	—	(23,270)	(23,270)
Total liabilities at fair value	$(24,144)	$(9,074)	$(166,996)	$(200,214)

	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2012	(Dollars in thousands)			
Trading securities				
U.S. Treasury bonds	$170,086	$—	$—	$170,086
Investment securities available-for-sale				
Mortgage securitization	—	—	91,117	91,117
U.S. government sponsored agencies	79,717	—	—	79,717
Municipal obligations	—	13,611	—	13,611
Loans held-for-sale				
Residential first mortgage loans	—	2,865,696	—	2,865,696
Loans held-for-investment				
Residential first mortgage loans	—	20,219	—	20,219
Transferors' interest	—	—	7,103	7,103
Mortgage servicing rights	—	—	710,791	710,791
Derivative assets				
U.S. Treasury futures	2,203	—	—	2,203
Rate lock commitments	—	—	86,200	86,200
Agency forwards	3,618	—	—	3,618
Interest rate swaps	—	5,813	—	5,813
Total derivative assets	5,821	5,813	86,200	97,834
Total assets at fair value	$255,624	$2,905,339	$895,211	$4,056,174
Derivative liabilities				
Forward agency and loan sales	$—	$(14,021)	$—	$(14,021)
Interest rate swaps	—	(5,813)	—	(5,813)
Total derivative liabilities	—	(19,834)	—	(19,834)
Warrant liabilities	—	(11,346)	—	(11,346)
DOJ litigation	—	—	(19,100)	(19,100)
Total liabilities at fair value	$—	$(31,180)	$(19,100)	$(50,280)

A determination to classify a financial instrument within Level 3 of the valuation hierarchy is based upon the significance of the unobservable inputs to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 inputs, observable inputs (that is, inputs that are actively quoted and can be validated to external sources). Also, the Company manages the risk associated with the observable components of Level 3 financial instruments using securities and derivative positions that are classified within Level 1 or Level 2 of the valuation hierarchy; these Level 1 and Level 2 risk management instruments are not included below, and therefore the gains and losses in the tables do not reflect the effect of the Company's risk management activities related to such Level 3 instruments. If the market for an instrument becomes more liquid or active and pricing models become available which allow for readily observable inputs, the Company will transfer the instruments from Level 3 to Level 2 valuation hierarchy.

Non-agency CMOs were transferred from Level 3 to Level 2 during the six months ended June 30, 2012 due to increased market liquidity and an increase in the number of available pricing models. The non-agency CMOs were valued based on pricing provided by external pricing services and were subsequently sold during the third quarter 2012.

Transferor's interest was transferred into Level 3 during the six months ended June 30, 2012 due to the assumptions utilized in the valuation of the claims to the note insurer and continuing credit losses on the loans underlying the securitization. Transferor's interest were valued based on pricing of the loans underlying the securitization and were now classified within Level 3 of the valuation hierarchy. As a result of the Assured litigation, the transferor's interest has been reversed and the assets and liabilities of the FSTAR 2005-1 HELOC securitization trust have been recorded on the Consolidated Financial Statements.

The Company had no transfers of assets or liabilities recorded at fair value between the fair value Levels for the three and six months ended June 30, 2013, respectively.

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Fair value measurements using significant unobservable inputs

The tables below include a roll forward of the Consolidated Statement of Financial Condition amounts for the three and six months ended June 30, 2013 and 2012 (including the change in fair value) for financial instruments classified by the Company within Level 3 of the valuation hierarchy.

		Recorded in Earnings		Recorded in OCI						
Three Months Ended June 30, 2013	Balance at Beginning of Period	Total Unrealized Gains / (Losses)	Total Realized Gains / (Losses)	Total Unrealized Gains / (Losses)	Purchases	Sales	Settlements	Transfers In (Out)	Balance at End of Period	Unrealized Gains / (Losses) Held at End of Period (4)
Assets	(Dollars in thousands)									
Investment securities available-for-sale (1)(2)										
Mortgage securitization	$87,356	$—	$(8,789)	$(356)	$—	$(73,327)	$(4,884)	$—	$—	$—
Loans held-for-investment										
Second mortgage loans	—	—	(7,216)	—	80,543	—	—	$—	$73,327	—
HELOC loans	—	—	—	—	170,507	—	—	$—	$170,507	—
Transferors' interest	6,872	—	45,708	—	—	—	(52,580)	$—	$—	—
Mortgage servicing rights	727,207	62,150	—	—	110,612	(139,302)	(31,648)	—	729,019	47,018
Totals	$821,435	$62,150	$29,703	$(356)	$361,662	$(212,629)	$(89,112)	$—	$972,853	$47,018
Liabilities										
Derivative financial instruments										
Rate lock commitments	$51,389	$(135,727)	$—	$—	$98,577	$(31,673)	$(6,312)	$—	$(23,746)	$(49,779)
Long-term debt	—	—	—	—	(119,980)	—	—	—	(119,980)	—
DOJ litigation	(19,100)	—	(4,170)	—	—	—	—	—	(23,270)	—
Totals	$32,289	$(135,727)	$(4,170)	$—	$(21,403)	$(31,673)	$(6,312)	$—	$(166,996)	$(49,779)
Three Months Ended June 30, 2012										
Investment securities available-for-sale (1)(2)(3)										
Non-agency CMOs	$235,136	$(1,017)	$20	$656	$—	$(20,816)	$(9,653)	$—	$204,326	$—
Mortgage securitization	105,034	—	—	1,006	—	—	(5,734)	—	100,306	—
Loans held-for-investment										
Transferors' interest	8,985	(1,244)	—	—	—	—	(81)	—	7,660	(1,244)
Mortgage servicing rights	596,830	(55,491)	—	—	126,691	—	(29,165)	—	638,865	(49,145)
Derivative financial instruments										
Rate lock commitments	68,248	186,426	—	—	215,389	(249,745)	(87,930)	—	132,388	7,846

Totals	$1,014,233	$128,674	$20	$1,662	$342,080	$(270,561)	$(132,563)	$—	$1,083,545	$(42,543)
Liabilities										
DOJ litigation	$(19,100)	$—	$—	$—	$—	$—	$—	$—	$(19,100)	$—

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Six Months Ended June 30, 2013	Balance at Beginning of Period	Recorded in Earnings: Total Unrealized Gains / (Losses)	Recorded in Earnings: Total Realized Gains / (Losses)	Recorded in OCI: Total Unrealized Gains / (Losses)	Purchases	Sales	Settlements	Transfers In (Out)	Balance at End of Period	Changes In Unrealized Held at End of Period (4)
Assets	(Dollars in thousands)									
Investment securities available-for-sale (1)(2)(3)										
Mortgage securitization	91,117	—	(8,789)	871	—	(73,327)	(9,872)	—	—	—
Loans held-for-investment										
Second mortgage loans	—	—	(7,216)	—	80,543	—	—	—	73,327	—
HELOC loans	—	—	—	—	170,507	—	—	—	170,507	—
Transferor's interest	7,103	(174)	45,708	—	—	—	(52,637)	—	—	(174)
Residential mortgage servicing rights	710,791	83,990	—	—	237,106	(233,739)	(69,129)	—	729,019	65,895
Totals	$809,011	$83,816	$29,703	$871	$488,156	$(307,066)	$(131,638)	$—	$972,853	$65,721
Liabilities										
Derivative financial instruments										
Rate lock commitments	$86,200	$(166,552)	$—	$—	$238,088	$(150,488)	$(30,994)	$—	$(23,746)	$(46,549)
Long-term debt	—	—	—	—	(119,980)	—	—	—	(119,980)	—
DOJ litigation	(19,100)	—	(4,170)	—	—	—	—	—	(23,270)	—
Totals	67,100	$(166,552)	$(4,170)	$—	$118,108	$(150,488)	$(30,994)	$—	$(166,996)	$(46,549)
Six Months Ended June 30, 2012										
Investment securities available-for-sale (1)(2)(3)										
Non-agency CMOs	$254,928	$(2,192)	$330	$17,160	$—	$(44,920)	$(20,980)	$—	$204,326	$—
Mortgage securitization	110,328	—	—	1,691	—	—	(11,713)	—	100,306	—
Loans held-for-investment										
Transferor's interest	9,594	(1,653)	—	—	—	—	(281)	—	7,660	(1,653)
Mortgage servicing rights	510,475	(35,586)	—	—	238,175	(18,202)	(55,997)	—	638,865	(29,750)
Derivative financial instruments										
	70,965	234,765	—	—	386,537	(408,913)	(150,966)	—	132,388	6,482

Rate lock commitments										
Totals	$956,290	$195,334	$330	$18,851	$624,712	$(472,035)	$(239,937)	$—	$1,083,545	$(24,921)
Liabilities										
DOJ litigation	$(18,300)	$—	$(800)	$—	$—	$—	$—	$—	$(19,100)	$—

(1) Realized gains (losses), including unrealized losses deemed other-than-temporary and related to credit issues, are reported in non-interest income.

(2) U.S. government agency investment securities available-for-sale are valued predominantly using quoted broker/dealer prices with adjustments to reflect for any assumptions a willing market participant would include in its valuation. Non-agency CMOs investment securities available-for-sale are valued using internal valuation models and pricing information from third parties.

(3) Management had anticipated that the non-agency CMOs would be classified under Level 2 of the valuation hierarchy. However, due to illiquidity in the markets, the fair value of these securities has been determined using internal models and therefore is classified within Level 3 of the valuation hierarchy and pricing information from third parties.

(4) This reflects the amount of total gains (losses) for the period which are included in earnings, which are attributable to the change in unrealized gains (losses) relating to assets still held at the end of the period.

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The following tables present the quantitative information about recurring Level 3 fair value financial instruments and the fair value measurements as of June 30, 2013 and December 31, 2012.

	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
June 30, 2013	(Dollars in thousands)			
Assets				
FSTAR 2006-1 second mortgage loans	$73,327	Discounted cash flows	Discount rate Prepay rate - 12 month historical average CDR rate - 12 month historical average Loss severity	7.2% - 10.8% (9.0%) 8.8% - 13.2% (11.0%) 4.3% - 6.4% (5.4%) 80.0% - 120.0% (100.0%)
FSTAR 2005-1 HELOC loans	$85,209	Discounted cash flows	Discount rate Prepay rate - 3 month historical average Cumulative loss rate Loss severity	5.6% - 8.4% (7.0%) 9.6% - 14.4% (12.0%) 11.5% - 17.3% (14.4%) 80.0% - 120.0% (100.0%)
FSTAR 2006-2 HELOC loans	$85,298	Discounted cash flows	Discount rate Prepay rate - 3 month historical average Cumulative loss rate Loss severity	7.2% - 10.8% (9.0%) 8.0% - 12.0% (10.0%) 39.9% - 60.0% (49.8%) 80.0% - 120.0% (100.0%)
Mortgage servicing rights	$729,019	Discounted cash flows	Option adjusted spread Constant prepayment rate Weighted average cost to service per loan	5.2% - 7.7% (6.4%) 10.6% - 15.6% (13.2%) 60.1% - 90.2% (75.2%)
Liabilities				
Rate lock commitments	$(23,746)	Mark-to-Market	Origination pull-through rate	64.0% - 95.9% (79.9%)
FSTAR 2005-1 Long-term debt	$(62,060)	Discounted cash flows	Discount rate Prepay rate - 3 month historical average Cumulative loss rate Loss severity	5.6% - 8.4% (7.0%) 9.6% - 14.4% (12.0%) 11.5% - 17.3% (14.4%) 80.0% - 120.0% (100.0%)
FSTAR 2006-2 Long-term debt	$(57,920)	Discounted cash flows	Discount rate Prepay rate - 3 month historical average Cumulative loss rate Loss severity	7.2% - 10.8% (9.0%) 8.0% - 12.0% (10.0%) 39.9% - 60.0% (49.8%) 80.0% - 120.0% (100.0%)
DOJ litigation settlement	$(23,270)	Discounted cash flows	Asset growth rate MSR growth rate Return on assets (ROA) improvement Peer group ROA	4.4% - 6.6% (5.5%) 0.9% - 1.4% (1.2%) 0.02% - 0.04% (0.03%) 0.5% - 0.8% (0.7%)

	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
December 31, 2012	(Dollars in thousands)			
Assets				
FSTAR 2006-1 mortgage securitization	$91,117	Discounted cash flows	Discount rate Prepay rate - 12 month historical average CDR rate - 12 month historical average Loss severity	7.2% - 10.8% (9.0%) 7.6% - 11.3% (9.4%) 5.3% - 8.0% (6.7%) 80.0% - 120.0% (100.0%)
FSTAR 2005-1 transferors' interest	$7,103	Discounted cash flows	Discount rate Prepay rate - 3 month historical average Cumulative loss rate Loss severity	4.6% - 6.9% (5.7%) 9.6% - 14.4% (12.0%) 11.4% - 17.2% (14.3%) 80.0% - 120.0% (100.0%)
Mortgage servicing rights	$710,791	Discounted cash flows	Option adjusted spread Constant prepayment rate Weighted average cost to service per loan	4.9% - 7.4% (6.1%) 14.0% - 20.3% (17.3%) 58.6% - 87.9% (73.3%)
Rate lock commitments	$86,200	Mark-to-Market	Origination pull-through rate	62.8% - 94.2% (78.5%)
Liabilities				
DOJ litigation settlement	$(19,100)	Discounted cash flows	Asset growth rate MSR growth rate Return on assets (ROA) improvement Peer group ROA	4.4% - 6.6% (5.5%) 0.9% - 1.4% (1.2%) 0.02% - 0.04% (0.03%) 0.5% - 0.8% (0.7%)

The significant unobservable inputs used in the fair value measurement of the FSTAR 2006-1 mortgage securitization trust are discount rates, prepayment rates and default rates. While loss severity (in the event of default) is an unobservable input, the sensitivity of the fair value to this input is zero because of the insurer coverage on the FSTAR 2006-1 mortgage securitization trust. Significant increases (decreases) in the discount rate in isolation would result in a significantly lower (higher) fair value measurement. Increases in both prepay rates and default rates in isolation result in a higher fair value; however, generally a change in the assumption used for the probability of default is accompanied by a directionally opposite change in the assumption used for prepayment rates, which would offset a portion of the fair value change.

The significant unobservable inputs used in the fair value measurement of the second mortgage loans are discount rates, prepayment rates, default rates, and loss severity. While the sensitivity of the fair value to the unobservable input loss severity (in the event of default) was historically zero because of the insurer coverage on the FSTAR 2006-1 mortgage securitization trust, it now has an impact as MBIA terminated its insurance policy as a result of the litigation settlement. Significant increases (decreases) in the discount rate in isolation would result in a significantly lower (higher) fair value measurement. Increases in both prepay rates and default rates in isolation result in a higher fair value; however, generally a change in the assumption used for the probability of default is accompanied by a directionally opposite change in the assumption used for prepayment rates, which would offset a portion of the fair value change. Significant decreases in loss severity in isolation would result in a higher fair value measurement, however, significant increases in loss severity in isolation would have no affect on the fair value measurement.

The significant unobservable inputs used in the fair value measurement of the HELOC loans are discount rates, prepayment rates, loss rates and loss severity. Significant increases (decreases) in the discount rate in isolation would result in a significantly lower (higher) fair value measurement. Increases in both prepay rates and loss rates in isolation result in a lower fair value; however, generally a change in the assumption used for the loss rate is accompanied by a directionally opposite change in the assumption used for prepayment rates, which would offset a portion of the fair value change. Significant increases (decreases) in the loss severity rate in isolation would result in a significantly lower (higher) fair value measurement.

The significant unobservable inputs previously used in the fair value measurement of the transferors' interest are discount rates, prepayment rates, loss rates and loss severity. Significant increases (decreases) in the discount rate in isolation would result in a significantly lower (higher) fair value measurement. Increases in both prepay rates and loss rates in isolation result in a lower fair value; however, generally a change in the assumption used for the loss rate is accompanied by a directionally opposite change in the assumption used for prepayment rates, which would offset a portion of the fair value change. Significant increases (decreases) in the loss severity rate in isolation would result in a significantly lower (higher) fair value measurement.

The significant unobservable inputs used in the fair value measurement of the MSRs are option adjusted spreads, prepayment rates, and cost to service. Significant increases (decreases) in all the assumptions in isolation would result in a significantly lower (higher) fair value measurement.

The significant unobservable input used in the fair value measurement of the rate lock commitments is the pull through rate. The pull through rate is a statistical analysis of the Company's actual rate lock fallout history to determine the sensitivity of the residential mortgage loan pipeline compared to interest rate changes and other deterministic values. New market prices are applied based on updated loan characteristics and new fall out ratios (i.e., the inverse of the pull through rate) are applied accordingly. Significant increases (decreases) in the pull through rate in isolation would result in a significantly higher (lower) fair value measurement. Generally, a change in the assumption utilized for the probability of default is accompanied by a directionally similar change in the assumption utilized for the loss severity and a directionally opposite change in assumption utilized for prepayment rates.

The significant unobservable inputs used in the fair value measurement of the long-term debt are discount rates, prepayment rates, loss rates and loss severity. Significant increases (decreases) in the discount rate in isolation would result in a significantly lower (higher) fair value measurement. Increases in both prepay rates and loss rates in isolation result in a lower fair value; however, generally a change in the assumption used for the loss rate is accompanied by a directionally opposite change in the assumption used for prepayment rates, which would offset a portion of the fair value change. Significant increases (decreases) in the loss severity rate in isolation would result in a significantly lower (higher) fair value measurement.

The significant unobservable inputs used in the fair value measurement of the DOJ litigation settlement are future balance sheet and growth rate assumptions for overall asset growth, MSR growth, peer group return on assets, and return on assets improvement. The current assumptions are based on management's approved, strategic performance targets beyond the current strategic modeling horizon (2013). The Bank's target asset growth rate post 2013 is based off of growth in the balance sheet post TARP repayment. Significant increases (decreases) in the bank's growth rate in isolation would result in a significantly lower (higher) fair value measurement. Significant increases (decreases) in the bank's MSR growth rate in isolation would result in a marginally lower (higher) fair value measurement. Significant increases (decreases) in the peer group's return on assets improvement in isolation would result in a marginally higher (lower) fair value measurement. Significant increases (decreases) in the bank's return on assets improvement in isolation would result in a marginally higher (lower) fair value measurement.

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The Company also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These assets are measured at the lower of cost or market and had a fair value below cost at the end of the period as summarized below.

Assets Measured at Fair Value on a Non-recurring Basis

	Level 3
June 30, 2013	
Impaired loans held-for-investment (1)	
Residential first mortgage loans	$78,558
Commercial real estate loans	51,728
Repossessed assets (2)	86,382
Totals	$216,668
December 31, 2012	
Impaired loans held-for-investment (1)	
Residential first mortgage loans	$147,036
Commercial real estate loans	73,810
Repossessed assets (2)	120,732
Totals	$341,578

(1) The Company recorded $5.1 million and $42.6 million in fair value losses on impaired loans (included in provision for loan losses on the Consolidated Statements of Operations) during the three and six months ended June 30, 2013, respectively, compared to $42.1 million and $89.9 million in fair value losses on impaired loans during the three and six months ended June 30, 2012, respectively.

(2) The Company recorded $1.6 million and $2.4 million in losses related to write-downs of repossessed assets based on the estimated fair value of the specific assets, and recognized net gains of $6.2 million and $10.6 million on sales of repossessed assets (both write-downs and net gains/losses are included in asset resolution expense on the Consolidated Statements of Operations) during the three and six months ended June 30, 2013, respectively, compared to $4.0 million and $9.8 million in losses related to write-downs of repossessed assets based on the estimated fair value of the specific assets, and recognized net gains of $3.2 million and $2.5 million on sales of repossessed assets during the three and six months ended June 30, 2012, respectively.

The following tables present the quantitative information about non-recurring Level 3 fair value financial instruments and the fair value measurements as of June 30, 2013 and December 31, 2012.

	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
June 30, 2013	(Dollars in thousands)			
Impaired loans held-for-investment				
Residential mortgage loans	$78,558	Fair value of collateral	Loss severity discount	0% - 100% (44.9%)
Commercial real estate loans	$51,728	Fair value of collateral	Loss severity discount	0% - 100% (36.5%)
Repossessed assets	$86,382	Fair value of collateral	Loss severity discount	0% - 100% (40.0%)

	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
December 31, 2012	(Dollars in thousands)			
Impaired loans held-for-investment				
Residential mortgage loans	$147,036	Fair value of collateral	Loss severity discount	0% - 100% (46.6%)
Commercial real estate loans	$73,810	Fair value of collateral	Loss severity discount	0% - 100% (41.6%)
Repossessed assets	$120,732	Fair value of collateral	Loss severity discount	0% - 100% (44.0%)

The Company has certain impaired residential and commercial real estate loans that are measured at fair value on a nonrecurring basis. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. Appraisals or other third party price opinions are generally obtained to support the fair value of the collateral and incorporate measures such as recent sales prices for comparable properties. In cases where the carrying value exceeds the fair value of the collateral less cost to sell, an impairment charge is recognized.

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Repossessed assets are measured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the repossessed asset. The fair value of repossessed assets, upon initial recognition, are estimated using Level 3 inputs based on customized discounting criteria. The significant unobservable inputs used in the Level 3 fair value measurements of the Company's impaired loans and repossessed assets included in the table above primarily relate to internal valuations or analysis.

Fair Value of Financial Instruments

The accounting guidance for financial instruments requires disclosures of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate their fair values. Certain financial instruments and all non-financial instruments are excluded from the scope of this guidance. Accordingly, the fair value disclosures required by this guidance are only indicative of the value of individual financial instruments as of the dates indicated and should not be considered an indication of the fair value of the Company.

The following table presents the carrying amount and estimated fair value of certain financial instruments.

	June 30, 2013				
		Estimated Fair Value			
	Carrying Value	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Financial Instruments					
Assets					
Cash and cash equivalents	$2,704,443	$2,704,443	$2,704,443	$—	$—
Trading securities	50,039	50,039	50,039	—	—
Investment securities available-for-sale	92,930	92,930	63,180	29,750	—
Loans held-for-sale	2,331,458	2,296,035	—	2,296,035	—
Loans repurchased with government guarantees	1,509,365	1,424,635	—	1,424,635	—
Loans held-for-investment, net	4,248,153	4,079,786	—	17,938	4,061,848
Accrued interest receivable	66,650	66,650	—	66,650	—
Repossessed assets	86,382	86,382	—	—	86,382
Federal Home Loan Bank stock	301,737	301,737	301,737	—	—
Mortgage servicing rights	729,019	729,019	—	—	729,019
Customer initiated derivative interest rate swaps	1,220	1,220	—	1,220	—
Liabilities					
Retail deposits					
Demand deposits and savings accounts	(3,759,267)	(3,643,973)	—	(3,643,973)	—
Certificates of deposit	(2,154,208)	(2,168,627)	—	(2,168,627)	—
Government deposits	(654,889)	(650,627)	—	(650,627)	—
Wholesale deposits	(74,382)	(75,410)	—	(75,410)	—
Company controlled deposits	(827,321)	(823,153)	—	(823,153)	—
Federal Home Loan Bank advances	(2,900,000)	(3,091,405)	(3,091,405)	—	—
Long-term debt	(367,415)	(227,030)	—	(107,050)	(119,980)
Accrued interest payable	(16,449)	(16,449)	—	(16,449)	—
Warrant liabilities	(7,854)	(7,854)	—	(7,854)	—
DOJ litigation settlement	(23,270)	(23,270)	—	—	(23,270)
Customer initiated derivative interest rate swaps	(1,220)	(1,220)	—	(1,220)	—
Derivative Financial Instruments					

Forward agency and loan sales	148,160	148,160	—	148,160	—
Rate lock commitments	(23,746)	(23,746)	—	—	(23,746)
U.S. Treasury and agency futures/forwards	(24,144)	(24,144)	(24,144)	—	—

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	December 31, 2012				
		Estimated Fair Value			
	Carrying Value	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Financial Instruments					
Assets					
Cash and cash equivalents	$952,793	$952,793	$952,793	$—	$—
Trading securities	170,086	170,086	170,086	—	—
Investment securities available-for-sale	184,445	184,445	79,717	13,611	91,117
Loans held-for-sale	3,939,720	3,945,133	—	3,945,133	—
Loans repurchased with government guarantees	1,841,342	1,704,317	—	1,704,317	—
Loans held-for-investment, net	5,133,101	5,119,704	—	20,219	5,099,485
Accrued interest receivable	91,992	91,992	—	91,992	—
Repossessed assets	120,732	120,732	—	—	120,732
Federal Home Loan Bank stock	301,737	301,737	301,737	—	—
Mortgage servicing rights	710,791	710,791	—	—	710,791
Customer initiated derivative interest rate swaps	5,813	5,813	—	5,813	—
Liabilities					
Retail deposits					
Demand deposits and savings accounts	(3,192,006)	(3,121,643)	—	(3,121,643)	—
Certificates of deposit	(3,175,481)	(3,199,242)	—	(3,199,242)	—
Government accounts	(819,078)	(816,258)	—	(816,258)	—
Wholesale deposits	(99,338)	(101,729)	—	(101,729)	—
Company controlled deposits	(1,008,392)	(1,005,780)	—	(1,005,780)	—
Federal Home Loan Bank advances	(3,180,000)	(3,422,567)	(3,422,567)	—	—
Long-term debt	(247,435)	(78,220)	—	(78,220)	—
Accrued interest payable	(13,420)	(13,420)	—	(13,420)	—
Warrant liabilities	(11,346)	(11,346)	—	(11,346)	—
DOJ litigation settlement	(19,100)	(19,100)	—	—	(19,100)
Customer initiated derivative interest rate swaps	(5,813)	(5,813)	—	(5,813)	—
Derivative Financial Instruments					
Forward agency and loan sales	(14,021)	(14,021)	—	(14,021)	—
Rate lock commitments	86,200	86,200	—	—	86,200
U.S. Treasury and agency futures/forwards	5,821	5,821	5,821	—	—

The methods and assumptions used by the Company in estimating fair value of financial instruments that were not previously disclosed, are as follows:

Cash and cash equivalents. Due to their short-term nature, the carrying amount of cash and cash equivalents approximates fair value.

Loans repurchased with government guarantees. The fair value of loans is estimated by using internally developed discounted cash flow models using market interest rate inputs as well as management’s best estimate of spreads for similar collateral.

Loans held-for-investment. The fair value of loans is estimated by using internally developed discounted cash flow models using market interest rate inputs as well as management's best estimate of spreads for similar collateral.

Federal Home Loan Bank stock. No secondary market exists for Federal Home Loan Bank stock. The stock is bought and sold at par by the Federal Home Loan Bank. Management believes that the recorded value is the fair value.

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Accrued interest receivable. The carrying amount is considered a reasonable estimate of fair value.

Deposit accounts. The fair value of demand deposits and savings accounts approximates the carrying amount. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for certificates of deposit with similar remaining maturities.

Federal Home Loan Bank advances. Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of the existing debt.

Long-term debt. The fair value of the long-term debt is estimated based on a discounted cash flow model that incorporates the Company’s current borrowing rates for similar types of borrowing arrangements.

Accrued interest payable. The carrying amount is considered a reasonable estimate of fair value.

Fair Value Option

The Company elected to measure at fair value certain financial assets and financial liabilities. The Company elected fair value option for the following items to mitigate a divergence between accounting losses and economic exposure.

The Company elected the fair value option for held-for-sale loans, originated post 2009, and the litigation settlement liability to better reflect the management of these financial instruments on a fair value basis. Loan held-for-investment include loans that were originated as loans held-for-sale and later transferred to loans held-for-investment at fair value. Interest income on loans held-for-sale is accrued on the principal outstanding primarily using the "simple-interest" method. Interest expense on the litigation settlement will be included in the overall change in fair value of the liability each quarter. Direct loan origination cost and fees on loans held-for-sale are recognized in income at origination.

As a result of the MBIA Settlement Agreement, the Company dissolved the FSTAR 2006-1 mortgage securitization trust and transferred the second mortgage loans, underlying the collapsed FSTAR 2006-1 mortgage securitization which were carried at fair value in available-for-sale investment securities. The change in fair value relating to the loans is recorded in other non-interest income.

As a result of the Assured Settlement Agreement, the Company elected the fair value option for the assets and liabilities of reconsolidated VIEs related to the HELOC securitization trusts. This option is generally elected for newly consolidated VIEs for which predominantly all of the Company's interests, prior to consolidation, are carried at fair value with changes in fair value recorded to earnings. The change in fair value relating to the assets and liabilities of these transactions is recorded in other non-interest income. Accordingly, such an election allows the Company to continue fair value accounting through earnings for those interests and eliminate income statement mismatch otherwise caused by differences in the measurement basis of the consolidated VIEs assets and liabilities.

The Company elected the fair value option to account for the liability representing the obligation to make Additional Payments under the DOJ Agreement. The signed DOJ Agreement establishes a legally enforceable contract with a stipulated payment plan that meets the definition of a financial liability. The Company made the fair value election as of December 31, 2011, the date the Company first recognized the financial instrument in its financial statements.

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The following table reflects the change in fair value included in earnings (and the account recorded in) for the assets and liabilities for which the fair value option has been elected.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Assets	(Dollars in thousands)			
Loans held-for-sale				
Net gain on loan sales	$(19,336)	$176,913	$68,307	$297,978
Loans held-for-investment				
Interest income on loans	$(26)	$689	$(806)	$(381)
Other non-interest income	36,854	—	36,854	—
Liabilities				
DOJ Agreement liability				
Legal and professional expense	$4,170	$—	$4,170	$800

The following table reflects the difference between the aggregate fair value and aggregate remaining contractual principal balance outstanding as of June 30, 2013 and December 31, 2012 for assets and liabilities for which the fair value option has been elected.

	June 30, 2013			December 31, 2012		
	(Dollars in thousands)					
	Unpaid Principal Balance	Fair Value	Fair Value Over / (Under) Unpaid Principal Balance	Unpaid Principal Balance	Fair Value	Fair Value Over / (Under) Unpaid Principal Balance
Assets						
Nonaccrual loans						
Loans held-for-sale	$—	$—	$—	$222	$240	$18
Loans held-for-investment	7,738	7,695	(43)	2,021	2,064	43
Total non-accrual loans	$7,738	$7,695	(43)	$2,243	$2,304	$61
Other performing loans						
Loans held-for-sale	$2,215,995	$2,247,527	$31,532	$2,734,756	$2,865,456	$130,700
Loans held-for-investment	289,542	254,077	(35,465)	17,589	18,155	566
Total other performing loans	$2,505,537	$2,501,604	$(3,933)	$2,752,345	$2,883,611	$131,266
Total loans						
Loans held-for-sale	$2,215,995	$2,247,527	$31,532	$2,734,978	$2,865,696	$130,718
Loans held-for-investment	297,280	261,772	(35,508)	19,610	20,219	609
Total loans	$2,513,275	$2,509,299	$(3,976)	$2,754,588	$2,885,915	$131,327
Liabilities						
Long-term debt	$(119,980)	$(119,980)	$—	$—	$—	$—
DOJ litigation settlement	N/A (1)	(23,270)	N/A (1)	N/A (1)	(19,100)	N/A (1)

(1) Remaining principal outstanding is not applicable to the litigation settlement because it does not obligate the Company to return a stated amount of principal at maturity, but instead return an amount based upon performance on the underlying terms in the DOJ Agreement.

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Note 4 – Investment Securities

As of June 30, 2013 and December 31, 2012, investment securities were comprised of the following.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
June 30, 2013				
Trading securities				
U.S. Treasury bonds	$49,998	$41	$—	$50,039
Available-for-sale securities				
Mortgage securitization	$—	$—	$—	$—
U.S. government sponsored agencies	62,192	988	—	63,180
Municipal obligations	29,750	—	—	29,750
Total available-for-sale securities	$91,942	$988	$—	$92,930
December 31, 2012				
Trading securities				
U.S. Treasury bonds	$169,991	$95	$—	$170,086
Available-for-sale securities				
Mortgage securitization	$101,272	$—	$(10,155)	$91,117
U.S. government sponsored agencies	77,328	2,389	—	79,717
Municipal obligations	13,611	—	—	13,611
Total available-for-sale securities	$192,211	$2,389	$(10,155)	$184,445

Trading securities

Trading securities are comprised of AAA-rated U.S. Treasury bonds. U.S. Treasury bonds held in trading are distinguished from available-for-sale based upon the intent of the Company to use them as an economic offset against changes in the valuation of the MSR portfolio; however, these securities do not qualify as an accounting hedge.

For U.S. Treasury bonds held, the Company recorded an unrealized loss of $0.1 million during both the three and six months ended June 30, 2013, compared to an unrealized loss of $15.8 million and $21.7 million during the three and six months ended June 30, 2012, respectively. The Company recorded a realized gain of $0.1 million on the sale of U.S. Treasury bonds for both the three and six months ended June 30, 2013, compared to an unrealized loss $19.5 million for both the three and six months ended June 30, 2012.

The Company has pledged certain trading securities, primarily U.S. Treasury bonds, to collateralize servicing related exposures with Fannie Mae. At June 30, 2013 and December 31, 2012, the Company pledged $23.2 million and $62.4 million, respectively, of trading securities.

Available-for-sale securities

At June 30, 2013 and December 31, 2012, the Company had $92.9 million and $184.4 million, respectively, in investment securities available-for-sale which were comprised of U.S. government sponsored agencies, mortgage securitization and municipal obligations. Securities available-for-sale are carried at fair value, with unrealized gains and losses reported as a component of other comprehensive loss to the extent they are temporary in nature or "other-than-temporary impairments" ("OTTI"). As of June 30, 2013, the FSTAR 2006-1 mortgage securitization trust was dissolved and the Company transferred the second mortgage loans associated with the FSTAR 2006-1 mortgage securitization into its loans held-for-investment portfolio.

The Company has pledged available-for-sale securities, primarily U.S. government sponsored agencies, to collateralize lines of credit and/or borrowings with the Federal Home Loan Bank of Indianapolis. At June 30, 2013 and December 31, 2012, the Company pledged $62.8 million and zero, respectively, of available-for-sale securities.

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The following table summarizes by duration the unrealized loss positions, at June 30, 2013 and December 31, 2012, on investment securities available-for-sale.

	Unrealized Loss Position with Duration 12 Months and Over			Unrealized Loss Position with Duration Under 12 Months		
	Fair Value	Number of Securities	Unrealized Loss	Fair Value	Number of Securities	Unrealized Loss
Type of Security	(Dollars in thousands)					
December 31, 2012						
Mortgage securitization	$91,117	1	$(10,155)	$—	—	$—

The credit losses in the portfolio reflect the economic conditions present in the United States over the course of the last several years and the forecasted effect of changes in such conditions, including changes in the forecast level of home prices. The continued decline in the delinquency rates of the mortgages in the underlying securitization suggest a stabilization of expected future defaults and reflect the recent improvements in the housing market.

During both the three and six months ended June 30, 2013, the Company recognized $8.8 million of additional OTTI on the FSTAR 2006-1 mortgage securitization, which was subsequently dissolved. At June 30, 2013, the Company had no OTTI and following the MBIA Settlement Agreement, the Company dissolved the FSTAR 2006-1 mortgage securitization and transferred the second mortgage loans associated with the FSTAR 2006-1 mortgage securitization into its loans held-for-investment portfolio. The Company also recognized a tax benefit of $6.1 million representing the recognition of the residual tax effect associated with the previously unrealized losses on the mortgage securitization recorded in other comprehensive income (loss). During the three and six months ended June 30, 2012, the Company recognized $1.0 million and $2.2 million, respectively, of OTTI on CMOs, representing seven securities that had losses prior to June 30, 2012. All OTTI due to credit losses has been recognized in current operations. At December 31, 2012, the cumulative amount of OTTI due to credit losses totaled $2.8 million on one mortgage securitization in the available-for-sale portfolio, of which a $5.0 million net loss was recognized in other comprehensive income. The following table shows the activity for OTTI credit loss.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Beginning balance of amount related to credit losses on non-agency CMOs and mortgage securitization	$(2,793)	$(53,998)	$(2,793)	$(59,376)
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the non-agency CMOs and mortgage securitization	389	2,639	389	5,600
Reductions for non-agency CMOs sold during the period (realized)	11,193	1,555	11,193	5,147
Additions for the amount related to the credit loss for which an OTTI impairment was not previously recognized	(8,789)	(1,017)	(8,789)	(2,192)
Ending balance of amount related to credit losses on non-agency CMOs and mortgage securitization	$—	$(50,821)	$—	$(50,821)

Gain (losses) on sales for available-for-sale securities are reported in "net gain on securities available-for-sale" in the Consolidated Statements of Operations. During the three and six months ended June 30, 2013, there were no sales of non-agency CMOs and U.S. government sponsored agencies, compared to $19.1 million and $39.6 million of sales of non-agency CMOs and U.S. government sponsored agencies resulting in a gain of $0.1 million and $0.3 million for the three and six months ended June 30, 2012.

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Note 5 – Loans Held-for-Sale

The loans held-for-sale are summarized as follows.

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
Consumer loans		
Residential first mortgage	$2,313,033	$3,012,039
Commercial loans		
Commercial real estate	7,760	280,399
Commercial and industrial	—	488,361
Commercial lease financing	10,665	158,921
Total commercial loans	18,425	927,681
Total loans held-for-sale	$2,331,458	$3,939,720

The decrease in the loans held-for-sale was primarily due to the agreements to sell the Northeast-based commercial loan portfolio, through which the Company sold $909.3 million of commercial loans.

At June 30, 2013 and December 31, 2012, $2.2 billion and $2.9 billion of loans held-for-sale were recorded at fair value, respectively, under the fair value option. Such loans will be reported at fair value with any adjustments in fair value recorded through the income statement. The Company estimates the fair value of mortgage loans based on quoted market prices for securities backed by similar types of loans for which quoted market prices were available. The fair values of loans were estimated by discounting estimated cash flows using management's best estimate of market interest rates for similar collateral.

At June 30, 2013 and December 31, 2012, $0.1 billion and $1.1 billion of loans held-for-sale were recorded at lower of cost or market ("LOCOM") based on a decision to sell the loans. The LOCOM loans were transferred into the held-for-sale portfolio from the held-for-investment portfolio. At the time of the transfer, any amount by which cost exceeded fair value was recorded as a valuation allowance.

The Company has pledged certain loans held-for-sale to collateralize lines of credit and/or borrowings with the Federal Home Loan Bank of Indianapolis. At June 30, 2013 and December 31, 2012, the Company pledged $1.8 billion and $2.4 billion, respectively, of loans held-for-sale.

Note 6 – Loans Repurchased with Government Guarantees

Pursuant to Ginnie Mae servicing guidelines, the Company has the unilateral option to repurchase certain delinquent loans (loans past due 90 days or more) securitized in Ginnie Mae pools, if the loans meet defined delinquent loan criteria. As a result of this unilateral option, once the delinquency criteria have been met, and regardless of whether the repurchase option has been exercised, the Company must treat the loans as having been repurchased and recognize the loans as loans held-for-sale on the Consolidated Statement of Financial Condition and also recognize a corresponding liability for a similar amount. If the loans are actually repurchased, the Company transfers the loans to loans repurchased with government guarantees and eliminates the corresponding liability. At June 30, 2013, the amount of such loans actually repurchased totaled $1.5 billion and were classified as loans repurchased with government guarantees, and those loans which the Company had not yet repurchased but had the unilateral right to repurchase totaled $45.4 million and were classified as loans held-for-sale. At December 31, 2012, the amount of such loans actually repurchased totaled $1.8 billion and were classified as loans repurchased with government guarantees, and those loans which the Company had not yet repurchased but had the unilateral right to repurchase totaled $72.4 million and were classified as loans held-for-sale.

Substantially all of these loans continue to be insured or guaranteed by the FHA, and the Company's management believes that the reimbursement process is proceeding appropriately. On average, claims have historically been filed and paid in approximately 18 months from the date of the initial delinquency; however increasing volumes throughout the country, as well as changes in the foreclosure process in certain states and other forms of government intervention may result in changes to the historical norm. These repurchased loans earn interest at a statutory rate, which varies and is based upon the 10-year U.S. Treasury note rate at the time the underlying loan becomes delinquent.

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The Company has pledged certain loans repurchased with government guarantees to collateralize lines of credit and/or borrowings with the Federal Home Loan Bank of Indianapolis. At June 30, 2013 and December 31, 2012, the Company pledged $1.0 billion and $1.5 billion, respectively, of loans repurchased with government guarantees.

During both the three and six months ended June 30, 2013, the Company participated in a HUD-coordinated market auction of loans repurchased with government guarantees, which resulted in the conveyance in an accelerated fashion of $131.9 million of loans at par value to HUD.

Note 7 – Loans Held-for-Investment

Loans held-for-investment are summarized as follows.

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
Consumer loans		
Residential first mortgage	$2,627,979	$3,009,251
Second mortgage	180,802	114,885
Warehouse lending	676,454	1,347,727
HELOC	321,576	179,447
Other	42,293	49,611
Total consumer loans	3,849,104	4,700,921
Commercial loans		
Commercial real estate	476,500	640,315
Commercial and industrial	160,259	90,565
Commercial lease financing	5,290	6,300
Total commercial loans	642,049	737,180
Total loans held-for-investment	4,491,153	5,438,101
Less allowance for loan losses	(243,000)	(305,000)
Loans held-for-investment, net	$4,248,153	$5,133,101

At June 30, 2013 and December 31, 2012, the loans held-for-investment include $261.8 million and $20.2 million of loans accounted for under the fair value option. During the six months ended June 30, 2013, the Company settled separate litigations with each MBIA and Assured, which resulted in the Company reconsolidating $170.5 million of loans associated with the HELOC securitization trusts and transferring $73.3 million of second mortgage loans associated with the collapse of the FSTAR 2006-1 mortgage securitization.

During the three and six months ended June 30, 2013, the Company transferred $2.5 million and $65.3 million in loans held-for-sale to loans held-for-investment. During the three and six months ended June 30, 2012, the Company transferred $5.3 million and $18.5 million, respectively, in loans held-for-sale to loans to held-for-investment. The loans transferred were carried at fair value, and will continue to be reported at fair value while classified as held-for-investment.

The Company has pledged certain loans held-for-investment to collateralize lines of credit and/or borrowings with the Federal Reserve Bank of Chicago and the Federal Home Loan Bank of Indianapolis. At June 30, 2013 and December 31, 2012, the Company pledged $2.8 billion and $3.3 billion, respectively, of loans held-for-investment.

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The Company's commercial leasing activities consist primarily of equipment leases. Generally, lessees are responsible for all maintenance, taxes, and insurance on leased properties. The following table lists the components of the net investment in financing leases.

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
Total minimum lease payment to be received	$4,548	$5,634
Estimated residual values of lease properties	967	913
Unearned income	(309)	(346)
Net deferred fees and other	84	99
Net investment in commercial financing leases	$5,290	$6,300

The allowance for loan losses by class of loan is summarized in the following tables.

	Residential First Mortgage	Second Mortgage	Warehouse Lending	HELOC	Other Consumer	Commercial Real Estate	Commercial and Industrial	Commercial Lease Financing	Total
	(Dollars in thousands)								
Three Months Ended June 30, 2013									
Beginning balance allowance for loan losses	$214,076	$20,683	$532	$18,118	$2,215	$32,720	$1,572	$84	$290,000
Charge-offs (1)	(63,099)	(2,033)	—	(812)	(587)	(21,350)	—	—	(87,881)
Recoveries	6,687	87	—	457	(80)	2,159	8	—	9,318
Provision	19,670	102	189	(2,895)	232	13,793	556	(84)	31,563
Ending balance allowance for loan losses	$177,334	$18,839	$721	$14,868	$1,780	$27,322	$2,136	$—	$243,000
Three Months Ended June 30, 2012									
Beginning balance allowance for loan losses	$158,661	$19,067	$1,824	$14,778	$2,593	$71,470	$9,953	$2,654	$281,000
Charge-offs	(22,570)	(4,057)	—	(4,257)	(728)	(31,277)	(23)	—	(62,912)
Recoveries	6,582	1,039	—	93	395	2,344	31	—	10,484
Provision	33,043	4,034	(268)	7,239	325	15,870	(1,453)	(362)	58,428
Ending balance allowance for loan losses	$175,716	$20,083	$1,556	$17,853	$2,585	$58,407	$8,508	$2,292	$287,000
Six Months Ended June 30, 2013									
Beginning balance allowance for	$219,230	$20,201	$899	$18,348	$2,040	$41,310	$2,878	$94	$305,000

loan losses									
Charge-offs (1)	(88,791)	(3,988)	—	(2,873)	(1,286)	(34,512)	—	—	(131,450)
Recoveries	12,040	477	—	562	374	4,002	17	—	17,472
Provision	34,855	2,149	(178)	(1,169)	652	16,522	(759)	(94)	51,978
Ending balance allowance for loan losses	$177,334	$18,839	$721	$14,868	$1,780	$27,322	$2,136	$ —	$243,000
Six Months Ended June 30, 2012									
Beginning balance allowance for loan losses	$179,218	$16,666	$1,250	$14,845	$2,434	$96,984	$5,425	$ 1,178	$318,000
Charge-offs	(118,002)	(9,340)	—	(10,676)	(1,918)	(76,310)	(1,604)	—	(217,850)
Recoveries	7,132	1,288	—	350	607	4,336	36	—	13,749
Provision	107,368	11,469	306	13,334	1,462	33,397	4,651	1,114	173,101
Ending balance allowance for loan losses	$175,716	$20,083	$1,556	$17,853	$2,585	$58,407	$8,508	$ 2,292	$287,000

(1) Includes charge-offs of $38.3 million related to the sale of residential first mortgage non-performing and TDR loans, during both the three and six months ended June 30, 2013, respectively.

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	Residential First Mortgage	Second Mortgage	Warehouse Lending	HELOC	Other Consumer	Commercial Real Estate	Commercial and Industrial	Commercial Lease Financing	Total
	(Dollars in thousands)								
June 30, 2013									
Loans held-for-investment									
Individually evaluated	$537,454	$20,284	$54	$783	$—	$58,243	$5,542	$—	$622,360
Collectively evaluated	2,090,525	160,518	676,400	320,793	42,293	418,257	154,717	5,290	3,868,793
Total loans	$2,627,979	$180,802	$676,454	$321,576	$42,293	$476,500	$160,259	$5,290	$4,491,153
Allowance for loan losses									
Individually evaluated	$110,070	$7,969	$—	$3,133	$—	$69	$84	$—	$121,325
Collectively evaluated	67,264	10,870	721	11,735	1,780	27,253	2,052	—	121,675
Total allowance for loan losses	$177,334	$18,839	$721	$14,868	$1,780	$27,322	$2,136	$—	$243,000
December 31, 2012									
Loans held-for-investment									
Individually evaluated	$805,787	$16,949	$—	$734	$—	$95,322	$41	$—	$918,833
Collectively evaluated	2,203,464	97,936	1,347,727	178,713	49,611	544,993	90,524	6,300	4,519,268
Total loans	$3,009,251	$114,885	$1,347,727	$179,447	$49,611	$640,315	$90,565	$6,300	$5,438,101
Allowance for loan losses									
Individually evaluated	$150,545	$7,028	$—	$3,074	$—	$2,538	$10	$—	$163,195
Collectively evaluated	68,685	13,173	899	15,274	2,040	38,772	2,868	94	141,805
Total allowance for loan losses	$219,230	$20,201	$899	$18,348	$2,040	$41,310	$2,878	$94	$305,000

A reserve is established on a loan when it is probable all amounts due will not be collected pursuant to the contractual terms of the loan and the recorded investment in the loan exceeds its fair value. Fair value is measured using either the present value of the expected future cash flows discounted at the loan's effective interest rate, the observable market price of the loan, or the fair value of the collateral if the loan is collateral dependent, reduced by estimated disposal costs.

The allowance for loan losses includes specific reserves for impaired loans, non-specific reserves for losses inherent on non-impaired loans utilizing the Company's internal probability of default and/or loss given default rating system, generally assuming a one to five year loss emergence period to determine estimated loss levels and qualitative adjustments for economic risks, industry and geographic concentrations and other factors not adequately captured in the Company's methodology and grading systems. The Company's procedure is to recognize losses through charge-offs when there is a high likelihood of loss after considering the borrower's financial condition, underlying collateral and guarantees, and the finalization of collection activities.

Non-performing commercial and commercial real estate loans are considered to be impaired and typically have an allowance allocated based on the underlying collateral's appraised value, less management's estimates of costs to sell. In estimating the fair value of collateral, the Company utilizes outside fee-based appraisers to evaluate various factors such as occupancy and rental rates in its real estate markets and the level of obsolescence that may exist on assets acquired from commercial business loans. Appraisals are updated at least annually but may be obtained more frequently if changes to the property or market conditions warrant.

Impaired residential loans include loan modifications considered to be troubled debt restructurings ("TDRs") and certain non-performing loans that have been charged down to collateral value. Fair value of non-performing residential mortgage loans, including redefaulted TDRs and certain other severely past due loans, is based on the underlying collateral's value obtained through appraisals or broker's price opinions, updated at least semi-annually, less management's estimates of cost to sell. The allowance allocated to TDRs performing under the terms of their modification is typically based on the present value of the expected future cash flows discounted at the loan's effective interest rate, on a pooled basis, as these loans are not considered to be collateral dependent.

For those loans not individually evaluated for impairment, management has sub-divided the commercial and consumer loans into homogeneous portfolios.

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	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Investment Loans
	(Dollars in thousands)					
June 30, 2013						
Consumer loans						
Residential first mortgage	$57,173	$11,465	$182,967	$251,605	$2,376,374	$2,627,979
Second mortgage	1,002	504	2,928	4,434	176,368	180,802
Warehouse lending	—	—	54	54	676,400	676,454
HELOC	2,458	1,342	8,036	11,836	309,740	321,576
Other	239	110	166	515	41,778	42,293
Total consumer loans	60,872	13,421	194,151	268,444	3,580,660	3,849,104
Commercial loans						
Commercial real estate (1)	—	22,736	58,243	80,979	395,521	476,500
Commercial and industrial	188	—	336	524	159,735	160,259
Commercial lease financing	—	—	5,206	5,206	84	5,290
Total commercial loans	188	22,736	63,785	86,709	555,340	642,049
Total loans (2)	$61,060	$36,157	$257,936	$355,153	$4,136,000	$4,491,153
December 31, 2012						
Consumer loans						
Residential first mortgage	$62,445	$16,693	$306,486	$385,624	$2,623,627	$3,009,251
Second mortgage	1,171	727	3,724	5,622	109,263	114,885
Warehouse lending	—	—	—	—	1,347,727	1,347,727
HELOC	2,484	910	3,025	6,419	173,028	179,447
Other	587	248	183	1,018	48,593	49,611
Total consumer loans	66,687	18,578	313,418	398,683	4,302,238	4,700,921
Commercial loans						
Commercial real estate	6,979	6,990	86,367	100,336	539,979	640,315
Commercial and industrial	—	—	41	41	90,524	90,565
Commercial lease financing	—	—	—	—	6,300	6,300
Total commercial loans	6,979	6,990	86,408	100,377	636,803	737,180
Total loans	$73,666	$25,568	$399,826	$499,060	$4,939,041	$5,438,101

(1) At June 30, 2013, $22.6 million of past due commercial real estate loans are handled by the loan workout group and represent loans in a run-off portfolio.

(2) Includes $7.7 million and $1.1 million of loans 90 days or greater past due accounted for under the fair value option at June 30, 2012 and December 31, 2012, respectively.

Loans on which interest accruals have been discontinued totaled approximately $256.1 million and $401.7 million at June 30, 2013 and December 31, 2012, respectively, and $426.1 million at June 30, 2012. Interest on these loans is recognized as income when collected. Interest that would have been accrued on such loans totaled approximately $2.6 million and $4.6 million during the three and six months ended June 30, 2013, respectively, compared to $5.8 million and $10.6 million during the three and six months ended June 30, 2012. At June 30, 2013 and December 31, 2012, the Company had no loan 90 days past due and still accruing.

Troubled Debt Restructuring

The Company may modify certain loans in both consumer and commercial loan portfolios to retain customers or to maximize collection of the outstanding loan balance. The Company has maintained several programs designed to assist borrowers by extending payment dates or reducing the borrower's contractual payments. All loan modifications are made on a case-by-case basis. The Company's standards relating to loan modifications consider, among other factors, minimum verified income requirements, cash flow analysis, and collateral valuations. Each potential loan modification is individually reviewed and the terms of the loan are modified to meet a borrower's specific circumstances at a point in time. All loan modifications, including those

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classified as TDRs, are reviewed and approved. Loan modification programs for borrowers have resulted in a significant increase in restructured loans. These loans are classified as TDRs and are included in non-accrual loans if the loan was non-performing prior to the restructuring. TDRs result in those instances in which a borrower demonstrates financial difficulty and for which a concession has been granted, which includes reductions of interest rate, extensions of amortization period, principal and/or interest forgiveness and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. These loans will continue on non-accrual status until the borrower has established a willingness and ability to make the restructured payments for at least six months, after which they will begin to accrue interest.

Periodically, the Company will restructure a note into two separate notes, referred to as A/B structures, charging off the entire B note. The A note is structured with appropriate LTV and cash flow coverage ratios that provide for a high likelihood of repayment. The A note is classified as a non-performing note until the borrower has displayed a historical payment performance for a reasonable period of time subsequent to the restructuring. A period of sustained repayment for at least six months generally is required to return the note to accrual status provided that management has determined that the performance is reasonably expected to continue. The A note will be classified as a restructured note (either performing or non-performing) through the calendar year in which historical payment performance on the restructured note has been established. At June 30, 2013 and December 31, 2012, there were zero A/B structure loans and four A/B structure loans totaling $5.7 million, respectively.

The following table provides a summary of TDRs outstanding by type and performing status.

	TDRs		
	Performing	Non-performing	Total
June 30, 2013	(Dollars in thousands)		
Consumer loans (1)			
Residential first mortgage	$405,073	$ 90,949	$496,022
Second mortgage	27,004	1,308	28,312
Other consumer	19,020	3,719	22,739
Total consumer loans	451,097	95,976	547,073
Commercial loans (2)			
Commercial real estate	—	235	235
Total TDRs	$451,097	$ 96,211	$547,308
December 31, 2012			
Consumer loans (1)			
Residential first mortgage	$573,941	$ 140,773	$714,714
Second mortgage	14,534	2,415	16,949
Total consumer loans	588,475	143,188	731,663
Commercial loans (2)			
Commercial real estate	1,287	2,056	3,343
Total TDRs	$589,762	$ 145,244	$735,006

(1) The allowance for loan losses on consumer TDR loans totaled $116.0 million and $159.0 million at June 30, 2013 and December 31, 2012, respectively.

(2) The allowance for loan losses on commercial TDR loans totaled zero and $0.3 million at June 30, 2013 and December 31, 2012, respectively.

TDRs returned to performing, or accrual, status totaled $5.7 million and $22.9 million during the three and six months ended June 30, 2013, respectively, and are excluded from non-performing loans, compared to $3.3 million and $25.7 million during the three and six months ended June 30, 2012. TDRs that have demonstrated a period of at least six months of consecutive performance under the modified terms, are returned to performing or accrual status and are excluded from non-performing loans. Although these TDRs have returned to performing status, they will still continue to be classified as impaired until repaid in full, or foreclosed and sold, and included as such in the tables within "repossessed assets." At June 30, 2013 and December 31, 2012, remaining commitments to lend additional funds to debtors whose terms have been modified in a commercial or consumer TDR were immaterial.

Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, but may give rise to potential incremental losses. Such losses are factored into the Company's allowance for loan losses estimate. Management both collectively and individually evaluates loans for impairment depending on the risk characteristics

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underlying the loan and the availability of data. Management continues to review this process for operational efficiency purposes which will allow for periodic review and updates of impairment data of TDRs grouped by similar risk characteristics. The Company measures impairment using the discounted cash flow method for performing TDRs and measures impairment based on collateral values for re-defaulted TDRs.

The following table presents the number of accounts, pre-modification unpaid principal balance, and post-modification unpaid principal balance that were new TDRs during the three and six months ended June 30, 2013 and 2012. In addition, the table presents the number of accounts and unpaid principal balance of loans that have subsequently defaulted during the three and six months ended June 30, 2013 and 2012 that had been modified in a TDR, during the 12 months preceding each quarterly period. TDRs are considered subsequently defaulted when greater than 90 days past due for both consumer and commercial loan portfolios.

	Number of Accounts	Pre-Modification Unpaid Principal Balance	Post-Modification Unpaid Principal Balance (1)	Increase (Decrease) in Allowance at Modification
Three Months Ended June 30, 2013	(Dollars in thousands)			
Residential first mortgages	85	$20,299	$ 17,646	$1,493
Second mortgages (2)	222	11,193	9,315	165
HELOC (2) (3)	287	27,051	22,738	—
Total TDR loans	594	$58,543	$ 49,699	$1,658

TDRs that subsequently defaulted in previous 12 months (4)	Number of Accounts	Unpaid Principal Balance	Increase in Allowance at Subsequent Default
	(Dollars in thousands)		
Residential first mortgages	6	$ 1,212	$69
Second mortgages	11	453	175
HELOC (3)	7	131	
Total TDR loans	24	$ 1,796	$244

	Number of Accounts	Pre-Modification Unpaid Principal Balance	Post-Modification Unpaid Principal Balance (1)	Increase (Decrease) in Allowance at Modification
Three Months Ended June 30, 2012	(Dollars in thousands)			
Residential first mortgages	255	$80,109	$ 83,545	$14,834
Second mortgages	73	3,688	3,196	(44)
Other consumer	13	524	403	7
Total TDR loans	341	$84,321	$ 87,144	$14,797

TDRs that subsequently defaulted in previous 12 months (4)	Number of Accounts	Unpaid Principal Balance	Increase in Allowance at Subsequent Default
	(Dollars in thousands)		
Residential first mortgages	15	$ 4,216	$1,182
Second mortgages	5	293	256
Total TDR loans	20	$ 4,509	$1,438

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Six Months Ended June 30, 2013	Number of Accounts	Pre-Modification Unpaid Principal Balance	Post-Modification Unpaid Principal Balance (1)	Increase (Decrease) in Allowance at Modification
New TDRs	(Dollars in thousands)			
Residential first mortgages	215	$54,492	$ 46,762	$1,824
Second mortgages (2)	340	15,065	13,067	341
HELOC (2) (3)	290	27,096	22,738	(1)
Total TDR loans	845	$96,653	$ 82,567	$2,164

TDRs that subsequently defaulted in previous 12 months (4)	Number of Accounts	Unpaid Principal Balance	Increase in Allowance at Subsequent Default
	(Dollars in thousands)		
Residential first mortgages	20	$ 4,893	$1,083
Second mortgages	14	622	368
HELOC (3)	7	131	
Total TDR loans	41	$ 5,646	$1,451

Six Months Ended June 30, 2012	Number of Accounts	Pre-Modification Unpaid Principal Balance	Post-Modification Unpaid Principal Balance (1)	Increase (Decrease) in Allowance at Modification
New TDRs	(Dollars in thousands)			
Residential first mortgages	536	$180,917	$ 184,200	$23,323
Second mortgages	148	9,207	6,407	(156)
Other consumer	19	779	637	9
Total TDR loans	703	$190,903	$ 191,244	$23,176

TDRs that subsequently defaulted in previous 12 months (4)	Number of Accounts	Unpaid Principal Balance	Increase in Allowance at Subsequent Default
	(Dollars in thousands)		
Residential first mortgages	25	$ 6,460	$1,403
Second mortgages	5	293	256
Total TDR loans	30	$ 6,753	$1,659

(1) Post-modification balances include past due amounts that are capitalized at modification date.

(2) New TDRs during the three and six months ended June 30, 2013, include 463 loans for a total of $30.8 million of post modification unpaid principal balance second mortgage and HELOC loans that were reconsolidated as a result of the litigation settlements with MBIA and Assured.

(3) HELOC post-modification unpaid principal balance reflects write downs.

(4) Subsequent default is defined as a payment re-defaulted within 12 months of the restructuring date.

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The following table presents impaired loans with no related allowance and with an allowance recorded.

	June 30, 2013			December 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)					
With no related allowance recorded						
Consumer loans						
Residential first mortgage loans	$158,587	$241,145	$—	$231,750	$360,575	$—
Second mortgage	806	4,360	—	1,170	4,545	—
Warehouse lending	54	—	—	—	—	—
HELOC	1	1,843	—	—	2,506	—
Commercial loans						
Commercial real estate	56,934	77,350	—	79,782	109,483	—
Commercial lease financing	5,206	5,205	—	—	—	—
	$221,588	$329,903	$—	$312,702	$477,109	$—
With an allowance recorded						
Consumer loans						
Residential first mortgage	$378,867	$378,589	$110,070	$574,037	$573,610	$150,545
Second mortgage	19,478	19,478	7,969	15,779	15,779	7,028
HELOC	782	782	3,133	734	734	3,074
Commercial loans						
Commercial real estate	1,309	3,836	69	15,540	22,917	2,538
Commercial and industrial (1)	336	392	84	41	97	10
	$400,772	$403,077	$121,325	$606,131	$613,137	$163,195
Total						
Consumer loans						
Residential first mortgage	$537,454	$619,734	$110,070	$805,787	$934,185	$150,545
Second mortgage	20,284	23,838	7,969	16,949	20,324	7,028
Warehouse lending	54	—	—	—	—	—
HELOC	783	2,625	3,133	734	3,240	3,074
Commercial loans						
Commercial real estate (2)	58,243	81,186	69	95,322	132,400	2,538
Commercial and industrial (1)	336	392	84	41	97	10
Commercial lease financing	5,206	5,205	—	—	—	—
Total impaired loans	$622,360	$732,980	$121,325	$918,833	$1,090,246	$163,195

(1) These impaired loans are from originations prior to 2011.

(2) The impaired commercial real estate loans are handled by the loan workout group and represent loans in a run-off portfolio.

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	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)							
Consumer loans								
Residential first mortgage	$671,573	$ 58,111	$733,728	$ 28,434	$716,311	$ 147,195	$737,353	$ 35,638
Second mortgage	20,113	299	15,742	302	19,058	608	15,240	484
Warehouse lending	27	—	291	—	18	—	296	—
HELOC	863	23	255	1	820	23	762	4
Other consumer	—	—	42	—	—	—	29	—
Commercial loans								
Commercial real estate	62,169	358	175,308	588	73,220	638	185,920	1,903
Commercial and industrial	188	—	138	1	139	—	892	5
Commercial lease financing	2,603	—	—	—	1,735	—	—	—
Total impaired loans	$757,536	$ 58,791	$925,504	$ 29,326	$811,301	$ 148,464	$940,492	$ 38,034

The Company utilizes an internal risk rating system which is applied to all commercial and commercial real estate credits. Management conducts periodic examinations which serve as an independent verification of the accuracy of the ratings assigned. Loan grades are based on different factors within the borrowing relationship: entity sales, debt service coverage, debt/total net worth, liquidity, balance sheet and income statement trends, management experience, business stability, financing structure of the deal, and financial reporting requirements. The underlying collateral is also rated based on the specific type of collateral and corresponding LTV. The combination of the borrower and collateral risk ratings result in the final rating for the borrowing relationship. Descriptions of the Company's internal risk ratings as they relate to credit quality follow the ratings used by the U.S. bank regulatory agencies as listed below.

Pass. Pass assets are not impaired nor do they have any known deficiencies that could impact the quality of the asset.

Special mention. Assets identified as special mention possess credit deficiencies or potential weaknesses deserving management's close attention. Special mention assets have a potential weakness or pose an unwarranted financial risk that, if not corrected, could weaken the assets and increase risk in the future.

Substandard. Assets identified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. For HELOC loans and other consumer loans, the Company evaluates credit quality based on the aging and status of payment activity and includes all non-performing loans.

Doubtful. Assets identified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. The possibility of a loss on a doubtful asset is high. However, due to important and reasonably specific pending factors, which may work to strengthen (or weaken) the asset, its classification as an estimated loss is deferred until its more exact status can be determined.

Commercial Credit Exposure	June 30, 2013			
	Commercial Real Estate	Commercial and Industrial	Commercial Lease Financing	Total Commercial
	(Dollars in thousands)			
Grade				
Pass	$245,160	$153,486	$ 84	$398,730
Special mention/watch	54,074	5,926	—	60,000
Substandard	177,266	847	5,206	183,319
Total loans	$476,500	$160,259	$ 5,290	$642,049

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Consumer Credit Exposure	June 30, 2013					
	Residential First Mortgage	Second Mortgage	Warehouse	HELOC	Other Consumer	Total Consumer
	(Dollars in thousands)					
Grade						
Pass	$2,032,421	$150,403	$553,150	$293,178	$42,017	$3,071,169
Special mention/watch	412,591	27,471	123,250	20,362	110	583,784
Substandard	182,967	2,928	54	8,036	166	194,151
Total loans (1)	$2,627,979	$180,802	$676,454	$321,576	$42,293	$3,849,104

(1) Includes $73.3 million and $170.5 million of second mortgage and HELOC loans, respectively, that were recorded as a result of the MBIA and Assured Settlements at June 30, 2013.

Commercial Credit Exposure	December 31, 2012			
	Commercial Real Estate	Commercial and Industrial	Commercial Lease Financing	Total Commercial
	(Dollars in thousands)			
Grade				
Pass	$277,037	$ 82,184	$6,300	$365,521
Special mention/watch	230,937	1,642	—	232,579
Substandard	132,341	6,739	—	139,080
Total loans	$640,315	$ 90,565	$6,300	$737,180

Consumer Credit Exposure	December 31, 2012					
	Residential First Mortgage	Second Mortgage	Warehouse	HELOC	Other Consumer	Total Consumer
	(Dollars in thousands)					
Grade						
Pass	$2,118,961	$95,969	$1,081,579	$175,512	$49,180	$3,521,201
Special mention/watch	583,804	15,192	266,148	910	248	866,302
Substandard	306,486	3,724	—	3,025	183	313,418
Total loans	$3,009,251	$114,885	$1,347,727	$179,447	$49,611	$4,700,921

Note 8 – Private-Label Securitization and Variable Interest Entities

The Company previously participated in four private-label securitizations of financial assets involving two HELOC loan transactions and two second mortgage loan transactions.

In December 2005, the Company completed the $600.0 million FSTAR 2005-1 HELOC securitization trust. As a result of this securitization, the Company recorded assets of $26.1 million in residual interests. The offered securities in the FSTAR 2005-1 HELOC Securitization were insured by Assured. Due to the Assured Settlement Agreement, the Company reconsolidated the FSTAR 2005-1 HELOC securitization's assets and liabilities, of approximately $85.2 million of HELOC loans and $62.1 million of long-term debt at June 30, 2013. As a result, the Company recognized $16.6 million of a net fair value adjustment during the three months ended June 30, 2013 and the Company eliminated the residual interests. The Company subsequently became the primary beneficiary of the FSTAR 2005-1 HELOC Securitization, which is reflected in the Consolidated Financial Statements as a VIE. The Company elected the fair value option for the assets and liabilities associated with the FSTAR 2005-1 HELOC securitization trust.

In December 2006, the Company completed the $302.2 million non-agency HELOC securitization, i.e, the FSTAR 2006-2 HELOC securitization trust. As a result of this securitization, the Company recorded assets of $11.2 million in residual interests. The offered securities in the 2006-2 HELOC securitization trust were insured by Assured. Due to the Assured Settlement Agreement, the Company reconsolidated the FSTAR 2006-2 HELOC securitization trust assets and liabilities, of approximately $85.3 million of HELOC loans and $57.9 million of long-term debt at June 30, 2013. As a result, the Company recognized $27.5 million of a net fair value adjustment during the three months ended June 30, 2013 and eliminated the residual interests. The Company subsequently became the primary beneficiary of the FSTAR 2006-2 HELOC Securitization, which is reflected in the Consolidated Financial Statements as a VIE. The Company elected the fair value option for the assets and liabilities associated with the FSTAR 2006-2 HELOC Securitization.

In April 2006, the Company completed the $400.0 million FSTAR 2006-1 mortgage securitization trust transaction involving fixed second mortgage loans that the Company held at the time in its investment securities portfolio. The offered securities in the FSTAR 2006-1 mortgage securitization trust were insured by MBIA. Due to the MBIA Settlement Agreement, the mortgage securitization trust was collapsed and the Company transferred the loans associated with the mortgage securitization trust, approximately $73.3 million of second mortgage loans to its loans held-for-investment portfolio. As a result, the Company recognized a $4.9 million loss during the three months ended June 30, 2013. The Company elected the fair value option for the assets associated with the mortgage securitization.

In March 2007, the Company completed the $620.9 million FSTAR 2007-1 mortgage securitization trust transaction involving closed-ended, fixed and adjustable rate second mortgage loans and recorded $22.6 million in residual interests and servicing assets. The financial assets were derecognized by the Company upon transfer to the securitization trusts, which then issued and sold mortgage-backed securities to third party investors. The Company relinquished control over the loans at the time the financial assets were transferred to the securitization trusts and the Company recognized a gain on the sale of the transferred assets. In June 2007, the Company completed a secondary closing for $98.2 million and recorded an additional $4.2 million in residual interests. The offered securities in the FSTAR 2007-1 mortgage securitization trust were insured by MBIA. In accordance with the MBIA Settlement Agreement, MBIA will be required to satisfy all of its obligation under the FSTAR 2007-1 insurance policy and related FSTAR 2007-1 obligations without further recourse to the Company.

The Company has not engaged in any private-label securitization activity except for these four securitizations completed from 2005 to 2007.

Consolidated VIEs

Consolidated VIEs at June 30, 2013 consisted of the HELOC securitization trusts formed in 2005 and 2006. The Company has determined the trusts are VIEs and has concluded that the Company is the primary beneficiary of these trusts because it has the power to direct the activities of the entity that most significantly affect the entity's economic performance and has either the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. The change in the consolidated VIE was a result of the Assured Settlement Agreement. Under the terms of the Assured Settlement Agreement, Assured terminated its pending lawsuit against the Company and will not pursue any related claims at any time in the future. In exchange, the Company paid Assured $105.0 million and assumed responsibility for future claims associated with the two HELOC securitization trusts, including the right to receive from Assured all future reimbursements for claims paid to which Assured would have been entitled. Upon effecting the settlement, the Company reversed the transferor's interest, as this interest would represent an equity interest in the trust which would be reversed upon consolidation of the trusts. As a result, the Company recognized $49.1 million of income, arising from its deemed receipt of the net fair value of the assets in the two HELOC securitization trusts and the reversal of its related reserves for pending and threatened litigation during the three months ended June 30, 2013.

The beneficial owners of the trusts can look only to the assets of the securitization trusts for satisfaction of the debt issued by the securitization trusts and have no recourse against the assets of the Company.

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The following table provides a summary of the classifications of consolidated VIE assets and liabilities included in the Consolidated Financial Statements.

	2005-1	2006-2	Total
	(Dollars in thousands)		
HELOC Securitizations			
Assets			
Cash and cash items	$381	$—	$381
Loans held-for-investment	85,209	85,298	170,507
Liabilities			
Long-term debt	$62,060	$57,920	$119,980
Other liabilities	381	—	381

The economic performance of the VIEs is most significantly impacted by the performance of the underlying loans. The principal risks to which the entities were exposed include credit risk and interest rate risk. Credit risk was managed through credit enhancement in the form of reserve accounts, over collateralization, excess interest on the loans, the subordination of certain classes of asset-backed securities to other classes, and in the case of the home equity transaction, an insurance policy with a third party guaranteeing payment of accrued and unpaid interest and principal on the securities. Interest rate risk was managed by interest rate swaps between the VIEs and third parties.

Transferors' Interests

Under the terms of the HELOC securitizations, the trusts purchased, and were initially obligated to pay, for any subsequent additional draws on the lines of credit transferred to the trusts. Upon entering a rapid amortization period, the Company became obligated to fund the purchase of those additional balances as they arise in exchange for a beneficial interest in the trust, which is known as the transferors' interest. The Company must continue to fund the required purchase of additional draws by the trust as long as the securitization remains active. As a result of the Assured Settlement Agreement, the Company has reconsolidated the assets and liabilities associated with the HELOC securitization trusts and therefore, the related interests have been reversed.

FSTAR 2005-1 HELOC Securitization. At June 30, 2013 and December 31, 2012, outstanding claims due to the note insurer were zero and $16.8 million, respectively, and based on the Company’s internal model, the Company believed that because of the claims due to the note insurer and continuing credit losses on the loans underlying the securitization, the fair value/carrying amount of the transferors' interest was zero and $7.1 million, respectively. The Company previously recorded a liability to reflect the expected liability arising from losses on future draws associated with this securitization. As a result of the Assured Settlement Agreement, the Company reconsolidated the assets and liabilities associated with the HELOC securitization trust and reversed the transferors' interests as of June 30, 2013.

FSTAR 2006-2 HELOC Securitization. At June 30, 2013 and December 31, 2012, outstanding claims due to the note insurer were zero and $88.7 million, respectively, and based on the Company’s internal model, the Company believed that because of the claims due to the note insurer and continuing credit losses on the loans underlying the securitization, there was no carrying amount of the transferors' interest. The Company recorded a liability of $7.6 million to reflect the expected liability arising from losses on future draws associated with this securitization. As a result of the Assured Settlement Agreement, the Company reconsolidated the assets and liabilities associated with the HELOC securitization trust and reversed the transferors' interests as of June 30, 2013.

Unfunded Commitments

The table below identifies separately for each HELOC securitization trust: (i) the notional amount of the total unfunded commitment under the Company's contractual arrangements, (ii) unfunded commitments that have been frozen or suspended because the borrowers do not currently meet the contractual requirements under their HELOC with the Company, and (iii) the amount currently fundable because the underlying borrowers' lines of credit are still active.

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	FSTAR 2005-1	FSTAR 2006-2	Total
December 31, 2012			
Notional amount of unfunded commitments (1)	$30,767	$27,447	$58,214
Less: Frozen or suspended unfunded commitments	27,825	26,958	54,783
Unfunded commitments still active	2,942	489	3,431

(1) The Company’s total potential funding obligation is dependent on both (a) borrower behavior (for example, the amount of additional draws requested) and (b) the contractual draw period (remaining term) available to the borrowers. Because borrowers can make principal payments and restore the amounts available for draws and then borrow additional amounts as long as their lines of credit remain active, the funding obligation has no specific limitation and it is not possible to define the maximum funding obligation. However, the Company expects that the maturity dates of the FSTAR 2005-1 HELOC Securitization and the FSTAR 2006-2 HELOC Securitization pools will be reached in 2015 and 2017, respectively, and the Company’s exposure will be substantially mitigated at such times, based on prepayment speeds and losses in the cash flow forecast.

Credit Risk on Securitization

With respect to the issuance of private-label securitizations, the Company retains certain limited credit exposure in that it retains non-investment grade residual securities in addition to customary representations and warranties, which is no longer a credit risk as of June 30, 2013. Following the Assured Settlement Agreement, the Company now has credit exposure associated with non-performing loans in securitization trusts on HELOCs. The value of the Company’s transferors' interests previously reflected the Company’s credit loss assumptions as applied to the underlying collateral pool and as of June 30, 2013 the transferors' interests has been reversed. To the extent that actual credit losses exceed the assumptions, the value of the Company’s non-investment grade residual securities and unreimbursed draws will be diminished.

All servicing related to second mortgage and HELOC loans underlying the private-label securitizations has been transferred to a third party servicer.

The following table summarizes the Company's balance of retained assets with credit exposure, which includes residential interests that are included as trading securities and unreimbursed HELOC draws that are included in loans held-for-investment. As of June 30, 2013, the Company no longer has credit exposure relating to the HELOC securitization trust as a result of the Assured Settlement Agreement.

	December 31, 2012	
	Amount of Loans Serviced	Balance of Retained Assets With Credit Exposure
	(Dollars in thousands)	
Private-label securitizations	$—	$7,103

Note 9 – Mortgage Servicing Rights

The Company recognizes MSR assets, at fair value, related to residential first mortgage loans sold when it retains the obligation to service these loans. MSRs are subject to changes in value from, among other things, changes in interest rates, prepayments of the underlying loans and changes in credit quality of the underlying portfolio. The Company subsequently measures its servicing assets for residential first MSRs, at fair value, as elected, each reporting date with any changes in fair value recorded in earnings in the period in which the changes occur. As such, the Company currently hedges certain risks of fair value changes of MSRs using derivative instruments that are intended to change in value inversely to part or all of the changes in the components underlying the fair value of MSRs.

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The table summarizes activity related to the MSRs as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Balance at beginning of period	$727,207	$596,830	$710,791	$510,475
Additions from loans sold with servicing retained	110,612	126,691	237,106	238,175
Reductions from bulk sales (1)	(139,302)	—	(233,739)	(18,202)
Changes in fair value due to (2)				
Decrease in MSR value (3)	(31,648)	(29,165)	(69,129)	(55,997)
All other changes in valuation inputs or assumptions (4)	62,150	(55,491)	83,990	(35,586)
Fair value of MSRs at end of period	$729,019	$638,865	$729,019	$638,865
Unpaid principal balance of residential first mortgage loans serviced for others (period end)	$68,320,534	$76,192,099	$68,320,534	$76,192,099

(1) Includes bulk sales related to underlying serviced loans totaling $12.7 billion and $23.4 billion for the three and six months ended June 30, 2013, respectively, compared to zero and $2.4 billion for the three and six months ended June 30, 2012, respectively.
(2) Changes in fair value are included within loan administration income on the Consolidated Statements of Operations.
(3) Represents decrease in MSR value associated with loans that were paid-off during the period.
(4) Represents estimated MSR value change resulting primarily from market-driven changes in interest rates.

The fair value of residential MSRs is estimated using a valuation model that calculates the present value of estimated future net servicing cash flows, taking into consideration expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors, which are determined based on current market conditions. The Company periodically obtains third-party valuations of its residential MSRs to assess the reasonableness of the fair value calculated by the valuation model.

The key economic assumptions used in determining the fair value of those MSRs capitalized during the three and six months ended June 30, 2013 and 2012 periods were as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Weighted-average life (in years)	6.0	6.1	5.7	6.1
Weighted-average constant prepayment rate	13.2 %	14.5 %	14.4 %	14.8 %
Weighted-average discount rate	8.0 %	7.1 %	7.9 %	7.0 %

The key economic assumptions reflected in the overall fair value of the entire portfolio of MSRs were as follows.

	June 30, 2013	December 31, 2012
Weighted-average life (in years)	6.2	5.3
Weighted-average constant prepayment rate	13.1 %	17.3 %
Weighted-average discount rate	8.4 %	7.0 %

Contractual servicing fees. Contractual servicing fees, including late fees and ancillary income, for each type of loan serviced are presented below. Contractual servicing fees are included within loan administration income on the Consolidated Statements of Operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Residential first mortgage	$50,768	$50,610	$104,846	$98,937
Other	73	133	271	306

Total	$50,841	$50,743	$105,117	$99,243

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Note 10 – Derivative Financial Instruments

The Company recognizes all derivative instruments on the Consolidated Statements of Financial Condition at fair value. Derivative instruments are contracts between two or more parties that have a notional amount and an underlying variable, require a small or no net investment, and allow for the net settlement of positions. A derivative's notional amount serves as the basis for the payment provision of the contract, and takes the form of units, such as shares or dollars. A derivative's underlying variable is a specified interest rate, security price, commodity price, foreign exchange rate, index, or other variable. The interaction between the notional amount and the underlying variable determines the number of units to be exchanged between the parties and influences the fair value of the derivative contract. Generally, these instruments help the Company manage exposure to interest rate risk, mitigate the credit risk inherent in the loan portfolio, hedge against changes in foreign currency exchange rates, and meet client financing and hedging needs. The following derivative financial instruments were identified and recorded at fair value as of June 30, 2013 and December 31, 2012:

- Fannie Mae, Freddie Mac, Ginnie Mae and other forward loan sale contracts;
- Rate lock commitments;
- Interest rate swaps; and
- U.S. Treasury and euro dollar futures and options.

Derivative assets and liabilities are recorded at fair value on the balance sheet, after taking into account the effects of bilateral collateral and master netting agreements. Gross positive fair values are netted with gross negative fair values by counterparty pursuant to a valid master netting agreement. In addition, payables and receivables in respect of collateral received from or paid to a given counterparty are included in this netting. These agreements allow the Company to settle all derivative contracts held with a single counterparty on a net basis, and to offset net derivative positions with related collateral, where applicable. As a result, the Company could have derivative contracts with negative fair values included in derivative assets on the balance sheet and contracts with positive fair values included in derivative liabilities.

On January 1, 2013, the Company adopted the update to FASB ASC Topic 210, "Balance Sheet: Disclosures about Offsetting Assets and Liabilities," and applied the provisions retrospectively. Under the amended guidance, an entity is required to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on its financial position. The guidance applies to derivatives accounted for in accordance with FASB ASC Topic 815, "Derivatives and Hedging," including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The adoption of the guidance did not have a material impact on the Consolidated Financial Statements or the Notes thereto.

Derivatives Not Designated in Hedge Relationships

Like other financial services institutions, the Company originates loans and extends credit, both of which expose the Company to interest rate risk. The Company actively manages the overall loan portfolio and the associated interest rate risk in a manner consistent with asset quality objectives. This objective is accomplished primarily through the use of an investment-grade diversified dealer-traded basket of swaps. These transactions may generate fee income, and diversify and reduce overall portfolio interest rate risk volatility. Although the Company utilizes swaps for risk management purposes, they are not treated as hedging instruments.

The Company hedges the risk of overall changes in fair value of loans held-for-sale and rate lock commitments generally by selling forward contracts on securities of Fannie Mae, Freddie Mac and Ginnie Mae (collectively, government sponsored entities or the "GSEs"). The forward contracts used to economically hedge the loan commitments are accounted for as non-designated hedges and naturally offset rate lock commitment mark-to-market gains and losses recognized as a component of gain on loan sale. The Company recognized pre-tax gains of $91.9 million and $52.2 million for the three and six months ended June 30, 2013, respectively, compared to pre-tax gains of $17.0 million and $58.1 million for the three and six months ended June 30, 2012, respectively, on hedging activity relating to loan commitments and loans held-for-sale. Additionally, the Company hedges the risk of overall changes in fair value of MSRs through the use of various derivatives including purchases of forward contracts on securities of Fannie Mae and Freddie Mac, the purchase/sale of U.S. Treasury futures contracts and the purchase/sale of euro dollar future contracts. These derivatives are accounted for as non-designated hedges against changes in the fair value of MSRs. The Company recognized a loss of $45.2 million and a loss of $63.2 million for the three and six months ended June 30, 2013, respectively, compared to a gain of $58.9 million and a gain of $56.2 million for the three and six months ended June 30, 2012, respectively, on MSR fair value hedging activities. The Company does not apply hedge accounting to any derivatives.

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The Company uses a combination of derivatives (U.S. Treasury futures, euro dollar futures, swap futures, and "to be announced" forwards) and certain trading securities to hedge the MSRs. For accounting purposes, these hedges represent economic hedges of the MSR asset with both the hedges and the MSR asset carried at fair value on the balance sheet. Certain hedging strategies that the Company uses to manage its investment in MSRs may be ineffective to fully offset changes in the fair value of such asset due to changes in interest rates and market liquidity. As both the hedges and the MSR asset are carried at fair value on the balance sheet, any hedge ineffectiveness is recognized in current period earnings.

The Company writes and purchases interest rate swaps to accommodate the needs of customers requesting such services. Customer-initiated trading derivatives are used primarily to provide derivative products to customers enabling them to manage interest rate risk exposure. Customer-initiated trading derivatives are tailored to meet the needs of the counterparties involved and, therefore, contain a greater degree of credit risk and liquidity risk than exchange-traded contracts, which have standardized terms and readily available price information. The Company mitigates most of the inherent market risk of customer-initiated interest rate swap contracts by taking offsetting positions. Market risk from unfavorable movements in interest rates is generally economically hedged by concurrently entering into offsetting derivative contracts. The offsetting derivative contracts have nearly identical notional values, terms and indices. These limits are established annually and reviewed quarterly. Interest rate swaps are agreements in which two parties periodically exchange fixed cash payments for variable payments based on a designated market rate or index, or variable payments based on two different rates or indices, applied to a specified notional amount until a stated maturity. The Company's swap agreements are structured such that variable payments are primarily based on LIBOR (one-month, three-month or six-month) or prime. These instruments are principally negotiated over-the-counter and are subject to credit risk, market risk and liquidity risk.

The Company had the following derivative financial instruments.

	Notional Amount	Fair Value	Expiration Dates
	(Dollars in thousands)		
June 30, 2013			
Assets (1)			
Forward agency and loan sales	$5,833,395	$148,160	2013
Interest rate swaps	69,462	1,220	Various
Total derivative assets	$5,902,857	$149,380	
Liabilities (2)			
U.S. Treasury and euro dollar futures	$10,762,100	$11,389	2013
Mortgage backed securities forwards	305,000	12,755	2013
Rate lock commitments	3,471,704	23,746	2013
Interest rate swaps	69,462	1,220	Various
Total derivative liabilities	$14,608,266	$49,110	
December 31, 2012			
Assets (1)			
U.S. Treasury and euro dollar futures	$11,778,600	$2,203	2013
Mortgage backed securities forwards	1,275,000	3,619	2013
Rate lock commitments	5,149,891	86,200	2013
Interest rate swaps	101,246	5,954	Various
Total derivative assets	$18,304,737	$97,976	
Liabilities (2)			
Forward agency and loan sales	$7,385,430	$14,021	2013
Interest rate swaps	101,246	5,954	Various
Total derivative liabilities	$7,486,676	$19,975	

(1) Asset derivatives are included in "other assets" on the Consolidated Statements of Financial Condition.
(2) Liability derivatives are included in "other liabilities" on the Consolidated Statements of Financial Condition.

Customer initiated derivatives. Fee income on customer-initiated trading derivatives are earned from entering into various transactions at the request of the customer, primarily interest rate swap contracts. Fair values of customer-initiated derivative financial instruments represent the net unrealized gains or losses on such contracts and are recorded in the Consolidated Statement

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of Financial Condition in "other assets" and "other liabilities." Changes in fair value are recognized in "other non-interest income" on the Consolidated Statements of Income. There were no net gains (losses) recognized in income on customer-initiated derivative instruments for the three and six months ended June 30, 2013 and 2012, respectively.

The Company enters into legally enforceable master netting agreements which reduce risk by permitting the closeout and netting of transactions with the same counterparty upon the occurrence of certain events. A master netting agreement allows two counterparties, who have multiple derivative contracts with each other, the ability to net settle amounts under all contracts, including any related collateral posted, through a single payment and in a single currency. The rights of offset associated with the derivative assets and liabilities are subject to the provisions of collateral agreements, certain of which as applicable to the Company are unilateral and/or contain restrictions on minimum collateral.

Collateral agreements require the counterparty to post, on a daily basis, collateral (typically cash or investment securities) equal to the Company’s net derivative receivable. For highly-rated counterparties, the agreements may include minimum dollar posting thresholds, but allow for the Company to call for immediate, full collateral coverage when credit-rating thresholds are triggered by counterparties. The Company’s collateral agreements contain provisions that require collateralization of the Company’s net liability derivative positions. Required collateral coverage is based on certain net liability thresholds. Under circumstances which constitute default under the agreements, the counterparties to the derivatives could request immediate full collateral coverage for derivatives in net liability positions. The Company's collateral agreements in which the collateral is restricted include provisions requiring unilateral funding of coverage for derivatives in net liability positions, as well as minimum collateral positions.

The following tables present the derivatives subject to a master netting arrangement, including the cash pledged as collateral.

	June 30, 2013					
				Gross Amounts Not Offset in the Statement of Financial Position		
Economic Undesignated Hedges	Gross Amount	Gross Amounts Offset in the Statement of Financial Position	Net Amount Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral	Net Amount
	(Dollars in thousands)					
Assets						
U.S. Treasury and euro dollar futures	$9,226	$9,226	$—	$—	$—	$—
Mortgage backed securities forwards	—	—	—	—	—	—
Forward agency and loan sales	175,366	5,313	170,053	15,009	6,884	148,160
Rate lock commitments	18,557	18,557	—	—	—	—
Interest rate swaps	3,590	—	3,590	—	2,370	1,220
Total derivative assets	$206,739	$33,096	$173,643	$15,009	$9,254	$149,380
Liabilities						
U.S. Treasury and euro dollar futures	$20,615	$9,226	$11,389	$—	$—	$11,389
	63,620	—	63,620	—	50,865	12,755

Mortgage backed securities forwards						
Forward agency and loan sales	5,313	5,313	—	—	—	—
Rate lock commitments	42,303	18,557	23,746	—	—	23,746
Interest rate swaps	1,220	—	1,220	—	—	1,220
Total derivative liabilities	$133,071	$33,096	$99,975	$—	$50,865	$49,110

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	December 31, 2012					
				Gross Amounts Not Offset in the Statement of Financial Position		
Economic Undesignated Hedges	Gross Amount	Gross Amounts Offset in the Statement of Financial Position	Net Amount Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral	Net Amount
	(Dollars in thousands)					
Assets						
U.S. Treasury and euro dollar futures	$36,801	$5,076	$31,725	$15,006	$14,516	$2,203
Mortgage backed securities forwards	42,194	—	42,194	(4)	38,579	3,619
Forward agency and loan sales	3,401	3,401	—	—	—	—
Rate lock commitments	86,286	86	86,200	—	—	86,200
Interest rate swaps	14,164	—	14,164	—	8,210	5,954
Total derivative assets	$182,846	$8,563	$174,283	$15,002	$61,305	$97,976
Liabilities						
U.S. Treasury and euro dollar futures	$5,076	$5,076	$—	$—	$—	$—
Forward agency and loan sales	17,422	3,401	14,021	—	—	14,021
Rate lock commitments	86	86	—	—	—	—
Interest rate swaps	5,954	—	5,954	—	—	5,954
Total derivative liabilities	$28,538	$8,563	$19,975	$—	$—	$19,975

At June 30, 2013, the Company held cash totaling $50.9 million under collateral agreements to collateralize net derivative assets due from counterparties. The Company pledged a total of $24.3 million and $76.3 million of investment securities and cash collateral to counterparties at June 30, 2013 and December 31, 2012, respectively, for derivative activities. The Company pledged $9.3 million and $61.3 million in cash collateral to counterparties at June 30, 2013 and December 31, 2012, respectively, and $15.0 million in U.S. Treasury bonds at both June 30, 2013 and December 31, 2012. The total collateral pledged is included in assets on the Consolidated Statements of Financial Condition.

Counterparty credit risk. The Bank is exposed to credit loss in the event of non-performance by the counterparties to its various derivative financial instruments. The Company manages this risk by selecting only well-established, financially strong counterparties, spreading the credit risk among such counterparties, and by placing contractual limits on the amount of unsecured credit risk from any single counterparty.

Note 11 – Federal Home Loan Bank Advances

The portfolio of Federal Home Loan Bank advances includes floating rate short-term daily adjustable advances and long-term fixed rate advances. The following is a breakdown of the advances outstanding.

	June 30, 2013		December 31, 2012	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate

	(Dollars in thousands)					
Short-term floating rate daily adjustable advances	$—	—	%	$280,000	0.50	%
Long-term fixed rate term advances	2,900,000	3.30	%	2,900,000	3.30	%
Total	$2,900,000	3.30	%	$3,180,000	3.80	%

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Maximum outstanding at any month end	$2,900,000	$3,691,000	$2,900,000	$3,770,000
Average outstanding balance	2,901,101	3,996,527	3,002,764	4,047,079
Average remaining borrowing capacity	798,755	754,994	975,912	701,268
Average interest rate	3.34 %	2.76 %	3.25 %	2.72 %

The following outlines the Company's FHLB advance final maturity dates.

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
2013	$—	$280,000
2014	250,000	250,000
2015	750,000	750,000
2016	1,650,000	1,650,000
2017	250,000	250,000
Total	$2,900,000	$3,180,000

At June 30, 2013, the Company had the authority and approval from the Federal Home Loan Bank to utilize a line of credit of up to $7.0 billion and the Company may access that line to the extent that collateral is provided. At June 30, 2013, the Company had available collateral sufficient to access $3.5 billion of the line of credit and had $2.9 billion of advances outstanding. The advances are collateralized by non-delinquent single-family residential first mortgage loans, loans repurchased with government guarantees, certain other loans and investment securities.

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Note 12 – Long-Term Debt

The Company sponsored nine trust subsidiaries which issued trust preferred securities to third party investors and loaned the proceeds to the Company in the form of junior subordinated notes included in long-term debt. The following table presents the outstanding balance on each junior subordinated note and related interest rates of the long-term debt as of the dates indicated.

	June 30, 2013			December 31, 2012		
	(Dollars in thousands)					
Junior Subordinated Notes						
Floating 3 Month LIBOR						
Plus 3.25% (1), matures 2032	$25,774	3.53	%	$25,774	3.56	%
Plus 3.25% (1), matures 2033	25,774	3.53	%	25,774	3.59	%
Plus 3.25% (1), matures 2033	25,780	3.53	%	25,780	3.56	%
Plus 2.00% (1), matures 2035	25,774	2.28	%	25,774	2.34	%
Plus 2.00% (1), matures 2035	25,774	2.28	%	25,774	2.34	%
Plus 1.75% (1), matures 2035	51,547	2.02	%	51,547	2.06	%
Plus 1.50% (1), matures 2035	25,774	1.78	%	25,774	1.84	%
Plus 1.45% (1), matures 2037	25,774	1.72	%	25,774	1.76	%
Plus 2.50% (1), matures 2037	15,464	2.77	%	15,464	2.81	%
Subtotal	$247,435			$247,435		
Notes associated with consolidated VIEs						
HELOC securitizations						
Plus 0.23% (2), matures 2018	62,060			—		
Plus 0.16% (3), matures 2019	57,920			—		
Total long-term debt	$367,415			$247,435		

(1) The securities are currently callable by the Company.

(2) The Notes will accrue interest at a rate equal to the least of (i) one-month LIBOR plus 0.23 percent (ii) the net weighted average coupon, and (iii) 16.00 percent.

(3) The interest rate for the notes may adjust monthly and will be subject to (i) a cap based on the weighted average of the loan rates on the mortgage loans, minus the rates at which certain fees and expenses of the issuing entity are calculated and minus any required spread and adjusted for actual days and (ii) a fixed cap of 16.00 percent.

At June 30, 2013 and December 31, 2012 the three-month LIBOR interest rate was 0.27 percent and 0.31 percent, respectively. At June 30, 2013 the one month LIBOR interest rate was 0.20 percent.

Trust Preferred Securities

The trust preferred securities outstanding mature 30 years from issuance and are callable by the Company after 5 years. Interest on all junior subordinated notes related to trust preferred securities is payable quarterly. Under the terms of the related indentures, the Company may defer interest payments for up to 20 consecutive quarters without default or penalty. In January 2012, the Company exercised its contractual rights to defer its interest payments with respect to trust preferred securities. The payments are periodically evaluated and will be reinstated when appropriate, subject to the provisions of the Company's Supervisory Agreement.

Notes Associated with Consolidated VIEs

As previously discussed in Note 8 - Private-Label Securitization and Variable Interest Entities, the Company determined it was the primary beneficiary of VIEs associated with HELOC securitizations and such VIEs are therefore consolidated in the Consolidated Financial Statements. As a result of the Assured Settlement Agreement, the

Company reconsolidated the assets and liabilities associated with the HELOC securitization trusts, the proceeds of which were used by the trust to repay outstanding debt.

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Note 13 - Representation and Warranty Reserve

The following table shows the activity in the representation and warranty reserve.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Balance, beginning of period,	$(185,000)	$(142,000)	$(193,000)	$(120,000)
Provision				
Charged to gain on sale for current loan sales	(5,052)	(5,643)	(10,870)	(10,694)
Charged to representation and warranty reserve - change in estimate	(28,941)	(46,028)	(46,336)	(106,566)
Total	(33,993)	(51,671)	(57,206)	(117,260)
Charge-offs, net	33,993	32,671	65,206	76,260
Balance, end of period	$(185,000)	$(161,000)	$(185,000)	$(161,000)

The liability for representation and warranty reserve reflects management's best estimate of probable losses with respect to the Bank's representation and warranty on the mortgage loans it originates and sells into the secondary market. At the time a loan is sold, an estimate of the fair value of the such loss associated with the mortgage loans is recorded in representation and warranty reserve in the Consolidated Statements of Financial Condition and charged against the sale gain on loan sales in the Consolidated Statement of Operations at the time of the sale. The Company recognizes changes afterwards in the liability when additional relevant information becomes available. Changes in the estimate are recorded in representation and warranty reserve - change in estimate on the Consolidated Statement of Operations. Charge-offs are recorded in representation and warranty reserve on the Consolidated Statements of Financial Condition.

The Company routinely obtains information from the GSEs regarding the historical trends of demand requests, and occasionally obtains information on anticipated future loan reviews and potential repurchase demand projections. The Company believes this information provides helpful but limited insight in anticipating GSE behavior, thus helping to better estimate future repurchase requests and validate representation and warranty assumptions. Estimating the balance of the representation and warranty reserve involves using assumptions regarding future repurchase request volumes, expected loss severity on these requests and claims appeal success rates. To assess the sensitivity of the representation and warranty reserve model to adverse changes, management periodically runs a sensitivity analysis using its reserve model by assuming hypothetical increases in the level of repurchase volume.

Reserve levels are a function of expected losses based on actual pending and expected claims and repurchase requests, historical experience and loan volume. To the extent actual outcomes differ from management estimates, additional provisions could be required that could adversely affect operations or financial position in future periods.

Note 14 – Stockholders' Equity

Preferred Stock

Preferred stock with a par value of $0.01 and a liquidation value of $1,000 and additional paid in capital attributable to preferred stock at June 30, 2013 is summarized as follows.

Rate	Earliest Redemption Date	Shares Outstanding	Preferred Shares	Additional Paid in Capital
(Dollars in thousands)				
5.0 %	January 31, 2012	266,657	$3	$263,274

Series C Preferred
Stock

On December 18, 2012, the U.S. Treasury announced its intention to auction the Series C Preferred Stock issued and outstanding under the TARP Capital Purchase Program during 2013. On March 15, 2013, the U.S. Treasury announced that it had priced auctions for the preferred stock of several institutions, including the Company, which it had purchased in early 2009 through the TARP Capital Purchase Program. The auction closed on March 28, 2013. The U.S. Treasury also auctioned the TARP Warrant, which closed on June 5, 2013, to purchase up to approximately 645,138 shares of Common Stock at an exercise price of $62.00

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per share. The Series C Preferred Stock and TARP Warrants are now held by unrelated third party investors and are no longer held by the federal government under the TARP Capital Purchase Program.

Accumulated Other Comprehensive Income (Loss)

The following table sets forth the components in accumulated other comprehensive income (loss) for each type of available-for-sale security.

	Pre-tax Amount	Income Tax (Expense) Benefit (1)	After-Tax Amount
	(Dollars in thousands)		
Accumulated other comprehensive income (loss)			
June 30, 2013			
Net unrealized gain on securities available-for-sale,			
U.S. government sponsored agencies	$988	$—	$988
Total net unrealized gain on securities available-for-sale	$988	$—	$988
December 31, 2012			
Net unrealized gain (loss) on securities available-for-sale,			
U.S. government sponsored agencies	$2,389	$—	$2,389
FSTAR 2006-1 securitization trust	(10,155)	6,108	(4,047)
Total net unrealized gain (loss) on securities available-for-sale	$(7,766)	$6,108	$(1,658)

(1) The income tax benefit reflects the amount which existed at the time the Company established the valuation allowance for deferred securities that were held at the date disposed or matured.

As a result of the MBIA settlement, the Company collapsed the FSTAR 2006-1 mortgage securitization trust and transferred the loans associated with the mortgage securitization to its loans held-for-investment portfolio. The Company also recognized a tax benefit of $6.1 million representing the recognition of the residual tax effect associated with the previously unrealized losses on the mortgage securitization recorded in other comprehensive income (loss).

Note 15 – Earnings Per Share

Basic earnings per share, excluding dilution, is computed by dividing earnings available to common stockholders by the weighted average number of shares of Common Stock outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised and converted into Common Stock or resulted in the issuance of Common Stock that could then share in the earnings of the Company. All previously stated references to the number of share outstanding, per share amounts, and stock option data of the Common Stock have been restated to give retroactive effect to the reverse stock split that occurred on October 11, 2012.

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The following tables set forth the computation of basic and diluted earnings per share of Common Stock.

	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
	(Dollars in thousands, except per share data)					
	Earnings	Weighted Average Shares	Per Share Amount	Earnings	Weighted Average Shares	Per Share Amount
Net income	$67,203		$—	$87,387		$—
Less: preferred stock dividend/accretion	(1,449)		—	(1,417)		—
Basic earnings per share	65,754			85,970		
Deferred cumulative preferred stock dividends	(3,569)	—	—	(3,374)	—	—
Net income applicable to Common Stock	62,185	56,054	1.11	82,596	55,740	1.48
Effect of dilutive securities						
Warrants	—	183	—	—	—	—
Stock-based awards	—	182	(0.01)	—	442	(0.01)
Diluted earnings per share						
Net income applicable to Common Stock	$62,185	56,419				